Financial accounts

2017, Complementary data to pension entitlements

Accrued pension liabilities stood at EUR 660 billion at the end of 2017

The accrued pension liabilities of Finland’s statutory earnings-related pension scheme stood at EUR 660.3 billion at the end of 2017 with a real discount rate assumption of three per cent, or 292 per cent relative to gross domestic product. The pension liabilities of the earnings-related pension scheme of private branches were EUR 443.3 billion and those of public branches were EUR 217.0 billion. From 2016, pension liabilities grew by EUR 16.1 billion. Of the growth, EUR 12.1 billion came from private and EUR 4.0 billion from public branches.

Accrued pension entitlements at different discount rates at the end of 2016, EUR million

Pension liabilities refer to the amount of money that would be enough to cover the pensions accrued by that moment discounted to present value. The amount of pension liabilities in the earnings-related pension scheme is critical to the discount rate used in the calculations: with a real discount rate of two per cent the pension liabilities were EUR 780.6 billion or 346 per cent relative to gross domestic product and with a four per cent real discount rate they were EUR 567.9 billion or 251 per cent relative to gross domestic product. Finland's earnings-related pension scheme is partially funded. According to the financial accounts,
the amount of earnings-related pension assets was EUR 206.7 billion at the end of 2017. The funding ratio, i.e. the ratio of pension assets and pension entitlements was 31 per cent. More about the topic in Statistics Finland’s Tiito&trendit blog (in Finnish).

Supplementary pension table complements financial accounts

In the revision of the European System of Accounts (ESA 2010), the statistics on pension liabilities were expanded with a supplementary pension table outside the “core accounts” that contains data on all pension liabilities included in social insurance. Data for 2015 were released concerning all EU countries on Eurostat’s pages. In Finland’s case, new statistical data were the above-mentioned pension liabilities of the statutory earnings-related pension scheme that are not included in the financial accounts but that are included in the supplementary pension table. Data on the pension entitlements of the earnings-related pension scheme have been released in the Finnish Centre for Pensions’ reports Statutory pensions in Finland – Long-term projections.

In addition to the statutory earnings-related pension scheme, the pension table includes data on the pension liabilities of employment-related supplementary pension schemes that are already included in the pension liabilities of insurance corporations and voluntary pension funds in the financial accounts. The amount of pension entitlements of voluntary supplementary pension schemes describes the technical provisions. At the end of 2017 it stood at EUR 9.3 billion or four per cent relative to gross domestic product.

The supplementary pension table describes the pensions classified as social insurance. The Social Insurance Institution’s national and guarantee pensions are classified as social assistance in national accounts and are thus not included in the supplementary pension table. The key difference between social insurance and social welfare is that in case of social welfare, pensions are paid to the pension recipients regardless of whether they participate in the system by paying pension contributions or not.

When calculating the accrued pension entitlements of the statutory earnings-related pension scheme the basis is a fictive situation where the insured are paid all pensions accrued by the moment examined but no new pension is accrued. The amount of pension liabilities does not describe the sustainability of the pension system. The concept depicts future pension expenditure, i.e. pensions paid to pension recipients whose amount is affected, in addition to earned income and the rate of accrual, by life expectancies and other assumptions in the calculation model. Incomes of the earnings-related pension scheme, i.e. pension contributions and the profits from the earnings-related pension assets are not included in the calculation.

In calculations stretching long into the future, background assumptions, like the discount rate and population and economic development, are of high significance for the results. The sensitivity of the results to the discount rate assumption is emphasised by releasing the results with the three real rates mentioned above.

Private and public branches

Finland’s statutory earnings-related pension scheme in practice covers all work in both private and public branches. The earnings-related pension scheme is formed of several pension acts that together cover the various sectors of the economy. The pension liabilities based on the following pension acts are included in private branches: Employees Pensions Act (TyEL), Seamen's Pensions Act (MEL), Self-Employed Persons' Pensions Act (YEL), Farmers' Pensions Act (MYEL), supplementary pension provision under the Employees' Pensions Act (TEL-L, abolished at the end of 2016) and the pensions of the Evangelical Lutheran Church.

The pension liabilities based on the following pension acts and rules are included in public branches: Act on public branches' pensions (JuEL, excl. church pensions), pension rules of the employees and officials of the Bank of Finland and the Provincial Government of Åland. At the beginning of 2017, the following acts were combined with the act on public branches’ pensions: Central Government's Pensions Act (VaEL), Local Government's Pensions Act (KuEL), Evangelical Lutheran Church's Pensions Act (KiEL) and the
pension rules for the Social Insurance Institution's employees. Pension liabilities based on VEKL (act on
the compensation of pensions from central government funds for periods of caring for a child aged under
three and during studies) are included in both private and public branches.

The supplementary pension table covers all supplementary pensions managed by voluntary pension funds
and foundations, as well as group pension insurance offered by insurance corporations because they are
considered to belong to social insurance. In the supplementary pension tables, individual pension insurance
taken out by enterprises or private persons is excluded from the definition of social insurance.

**Accrual calculations of the pension entitlements in the earnings-related pension scheme**

The amount of pension liabilities is calculated with a long-term planning model in the Finnish Centre for
Pensions. Information on the calculation model and the pension liability calculations released by the
Finnish Centre for Pensions, i.e. accrued pension entitlements can be found in the Finnish Centre for
Pensions’ reports *Statutory pensions - long-term calculations*, especially in Appendices 3 and 8. The latest
report is *Statutory pensions – long-term calculations 2019*. The difference compared to the calculation of
the Finnish Centre for Pensions’ report is that the supplementary pension tables use the background
assumptions agreed on in the European Union’s AWG (*Ageing Working Group*) and recommended by
Eurostat in order to improve the international comparability of the calculations.

The long-term planning model of the Finnish Centre for Pensions describes how the pension scheme works
and its current regulations in detail. Future development of pensions is in the model calculated pension
act specifically using age and sex-specific data on insured persons and the population of Finland.

When calculating pension liabilities, all pension entitlements accumulated by the time of examination and
pensions under payment are considered. Future index increases and the effect of the life expectancy
coefficient have also been considered in the amount of pension liabilities. Pension parts that are accrued
based on future work or social security benefit periods are not included in accrued pension entitlements.
The future part of disability pensions that will start later are not included in accrued pension entitlements.
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Pension entitlements in the end of 2017

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<tr>
<td>3 % (base scenario)</td>
<td>Statutory earnings-related pension scheme</td>
<td>660</td>
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<td>- private branches 1)</td>
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<td>- public branches 2)</td>
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1) the Employees Pensions Act, the Seafarer’s Pensions Act, the Self-employed Persons? Pensions Act, the Farmers? Pensions Act, the Act on supplementary pension provision under the Employees Pensions Act (closed down in the end of 2016), the pensions of the evangelical-lutheran church, the Act on compensation for Pension Accrual from State Funds for Period of Childcare and Periods of Study

2) the Public Sector Pensions Act (excluding the pensions of the evangelical-lutheran church), the Pension regulations for the employees of the Bank of Finland and the Regional government of Åland, the Act on compensation for Pension Accrual from State Funds for Period of Childcare and Periods of Study

3) voluntary industry-wide and company pension funds’ pension insurances and insurance corporations’ group pension insurances