

FINLAND

Finland's population has aged rapidly over the past 50 years. The figures at right show the percentage of Finland's total population by five year age groups, separately for males and females. In 1950, Finland's population distribution formed a classic pyramid shape, where each successively younger age cohort represents a larger portion of the total population. However, the drop in fertility rates during the Depression and WWII created a slight indentation for several younger cohorts.

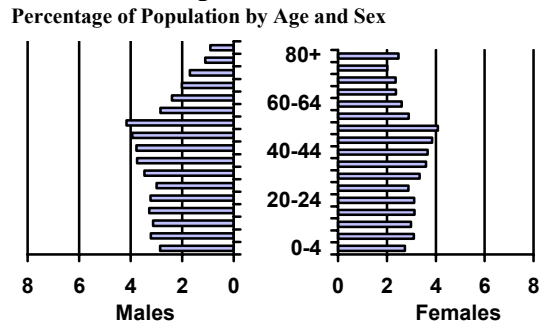
Between 1950 and 2000, Finland's fertility rate fell from 2.97 to 1.55, and life expectancy rose 11 and 12 years for males and females, respectively. These factors caused the population structure to shift to a pillar shape, where the total population is equally distributed among the age cohorts. The bulge in the middle aged cohorts represents the surge in fertility rates following WWII that produced the baby boom generation.

Looking to the future, the anticipated mix of low fertility rates with rising life expectancy will lead to a fulfillment of a pillar formation. Most noticeable is the spike in the percentage of old age (80+) women in the population. The average age in the Finland will be nearly 45 years old by 2030 compared to an average age of 39 today.

Finland's Population Structure in 1950



Finland's Population Structure in 2000



Finland's Population Structure in 2030



Source: UN Population Division, World Population Prospects (The 2000 Revision).

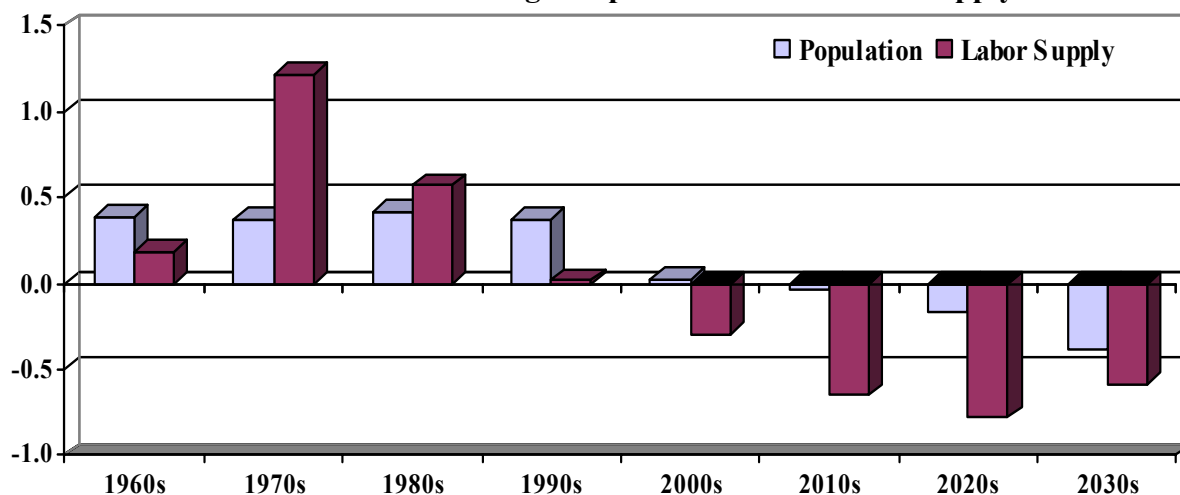
Demographic History

	1950	1960	1970	1980	1990	2000
Life Expectancy at Birth						
Males	63.20	65.40	66.60	70.02	71.9	74.43
Females	69.60	72.50	75.00	77.94	79.58	81.53
Life Expectancy at 65						
Males	-	76.45	76.75	78.02	79.53	80.35
Females	-	78.70	79.95	82.20	83.40	84.62
Fertility Rate	2.97	2.58	1.62	1.69	1.83	1.55
Net Migration Rate	-1.12	-1.40	0.50	0.48	0.85	0.39

A critical component of a society's ability to expand its production of goods and services is the growth of its labor force. As Finland's population aged over the past half-century, its labor force has undergone changes as well. Soon after the end of World War II, many industrialized societies, including Finland, experienced a significant spike in birth rates that produced the generation known as the baby boom. Labor supply growth increased dramatically during the 1970's and 1980's as the baby boom generation, including an unprecedented number of its female members, entered the workforce. Low fertility rates over the last few decades have caused population growth to slow considerably. This created a temporary boon where a high percentage of the population was economically active – often referred to as a “demographic dividend”. Between 1970 and 2000, total dependency rates in Finland fell by about 12 percent, while youth dependency fell by about 34 percent.

As the baby boom generation moves ever-closer to their retirement years, labor supply growth in Finland is anticipated to grow more slowly than the population. Prolonged low fertility, increasing life expectancy and a greater proportion of the population falling into age groups that have lower propensity to work have the combined effect of diminishing labor supply growth. In fact, these factors will actually cause Finland's labor force to shrink over the current decade. As a result, Finland will face a much greater percentage of its population being inactive, reflected by an over 40 percent increase in the total dependency ratio and nearly a 90 percent rise in the old age dependency rate between 2000 and 2030.

Annual Percent Change: Population versus Labor Supply



Source: World Bank, World Development Indicators database

Dependency Ratios

	1970	2000	2030	% change 1970-2000	% change 2000-2030
Youth- (Inactive pop 0-19)/ LF 15+	0.66	0.44	0.42	-33.85	-4.72
Aged- (Inactive pop 55+)/ LF 15+	0.30	0.40	0.77	36.60	89.77
Total- (Inactive pop 0-19 and 55+)/ LF 15+	0.96	0.84	1.19	-12.07	40.66

Source: Sources: International Labor Office, LABORSTA database, current through 2001; UN, Population Division, World Population Prospect (The 2000 Revision); OECD, CDE database on labor statistics, current though 2002

Old Age Pension System

The old age pension system in Finland is comprised of a two-tier scheme that includes the basic state pension (a.k.a. the national pension) and several earnings-related plans for different groups of workers. The basic state pension is a universal benefit that is available at age 65, although a reduced benefit is available at age 60. The full pension benefit is granted as long as an individual has resided in Finland for 40 years between 16 and 64. In 2002, the full basic benefit equaled between 19 percent and 22 percent of earnings based on marital status and municipality of residence. However, if other monthly pension income is greater than €45.75 (roughly 2 percent of average earnings), the benefit is reduced by 50 percent of the difference. If other monthly pension income is greater than €847.17 to €998.92 (about 39 to 46 percent of average earnings), the universal benefit is not payable, depending on municipality and marital status.

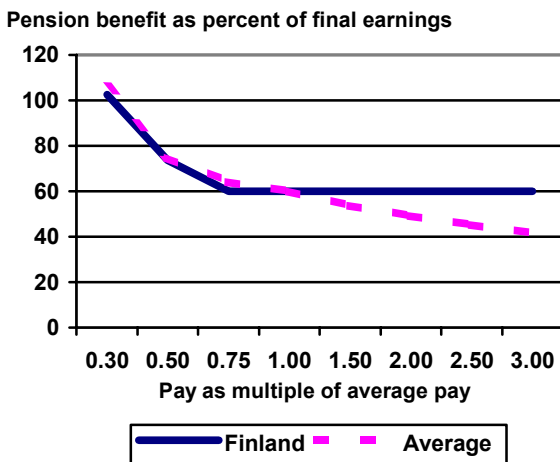
The second part of the system consists of several pension plans that cover different segments of the labor force. Employees earn 1.5 percent of pensionable pay for each year of employment between ages 23 and 59 and 2.5 percent for each year between ages 60 and 64. Pensionable pay is defined as an employee's gross earnings reduced by pension contributions, averaged over the past 10 years. Like with the basic pension, the earnings-related pension is payable at age 65 and can be taken at a reduced amount as early as age 60. Benefits in payment are uprated annually based on a blended formula based on 20 percent earnings inflation and 80 percent price inflation. Large companies, with 300 or more employees, are able to opt out of the second tier of the pension system and establish their own pension scheme.

To finance the basic pension, employers contribute between 1.3 percent and 4.45 percent of payroll – employees contribute nothing. Also, about 36 percent of the universal pension is paid by the government. As for the earnings-related scheme, employees contribute 4.4 percent of earnings and employers contribute between 11.1 and 21.6 percent, according to the age and gender of the employee. The government covers any costs not covered by employee contributions.

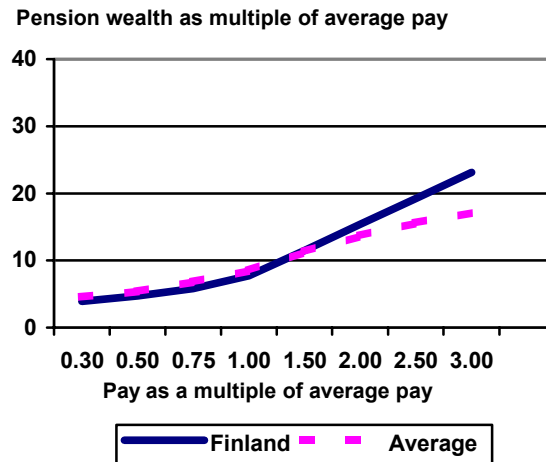
As the graphs illustrate below, Finland's old age pension system provides income replacement and gross pension wealth roughly equivalent to the OECD average for retirees earning average pay and below. However, the scheme is less progressive, since replacement rates for above average earners are higher than the OECD average and can accumulate higher levels of pension wealth.

Source: Whitehouse, Edward (2003) and Social Security Administration, Social Security Programs Throughout the World (2002).

Gross Replacement Rates
Finland v OECD Average



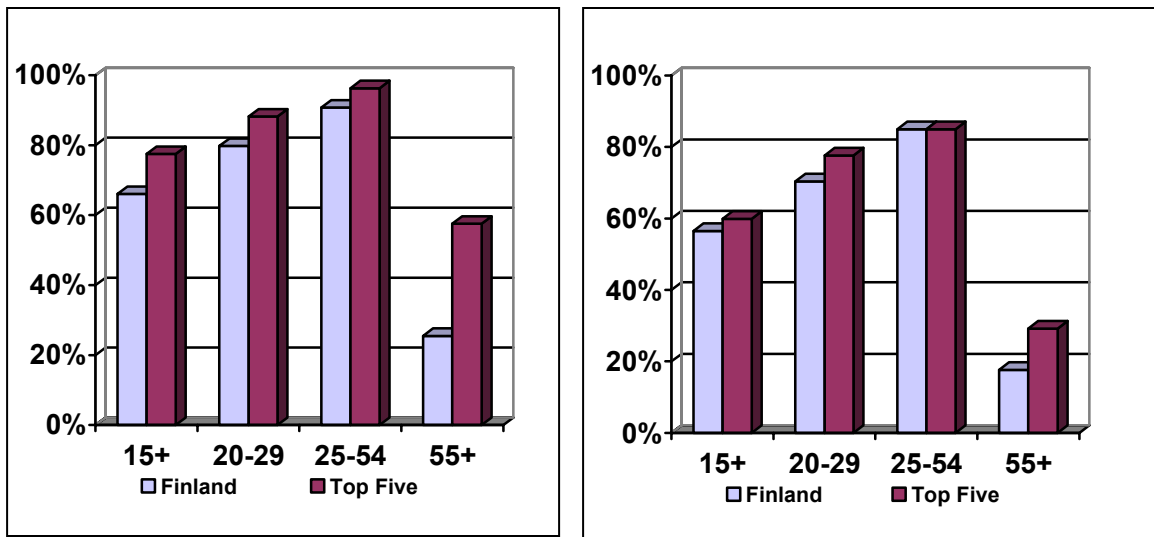
Gross Pension Wealth
Finland v OECD Average



Source: Whitehouse, Edward (2003)

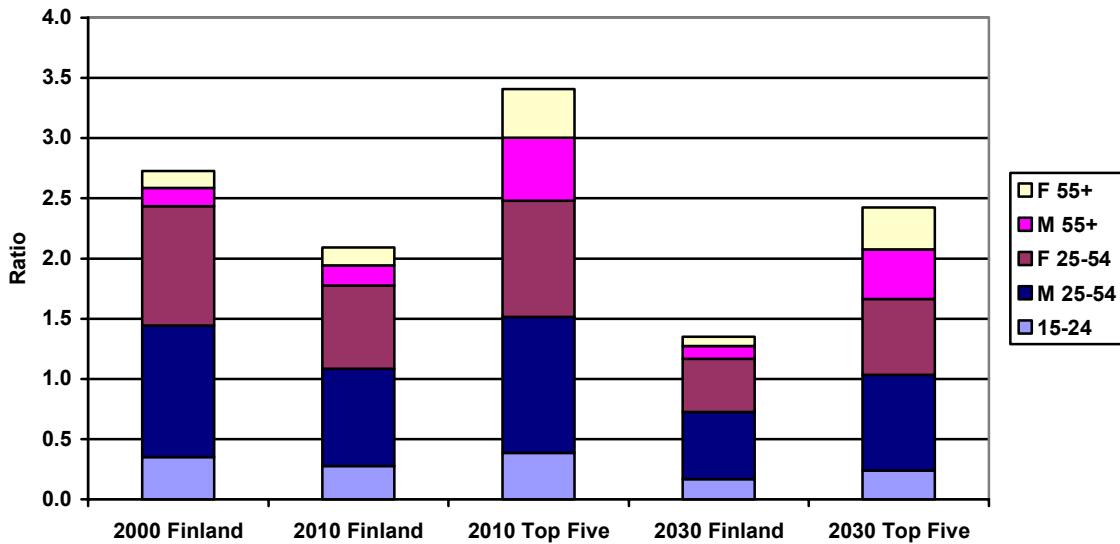
Notes: Pension wealth estimates are a multiple of economy-wide average.

Labor Force Participation Rates: Finland v Top Five OECD Country Composite



Source: OECD, Corporate Data Environment database on labor statistics, current though 2002

Ratio of Workers in Finland 15+ to Retirees 60+ in 2000, 2010 and 2030 and Under Alternative Assumptions of Old Age Participation Rates for the Top Five OECD Countries



Source: UN Population Division, World Population Prospect (The 2000 Revision); OECD, Corporate Data Environment database current though 2002

Much of the burden caused by demographic aging is due to rising dependency rates. In the coming decades, many industrialized nations, including Finland, will need to figure out how to support a growing inactive population with fewer workers. A remedy to this problem is to adopt programs that promote greater workforce participation at all ages. Some countries excel at achieving high workforce participation across various age and gender groups. The figures above show how Finland's labor force participation stacks up next to the average of the Top-five OECD nations. Activity rates in Finland fall short of rates in the Top-five countries for every age and gender group. Most noticeably, older individuals participate in the labor force to a much lesser extent than those in the Top-five countries. If Finland adopts measures to increase labor force participation of older age groups (55+) to rates similar to the Top-five OECD nations, it could significantly reduce its old age dependency rates. As shown in the figure above, if Finland maintains its current activity rates between 2000 and 2030, the ratio of workers to retirees is expected to fall from nearly 2.7 to 1.4. However, by adopting policies to entice workers to defer their retirement at rates similar to those achieved by the Top-five OECD nations, Finland could reduce its dependency burden by raising its activity rate to 2.4 workers per retiree in 2030.