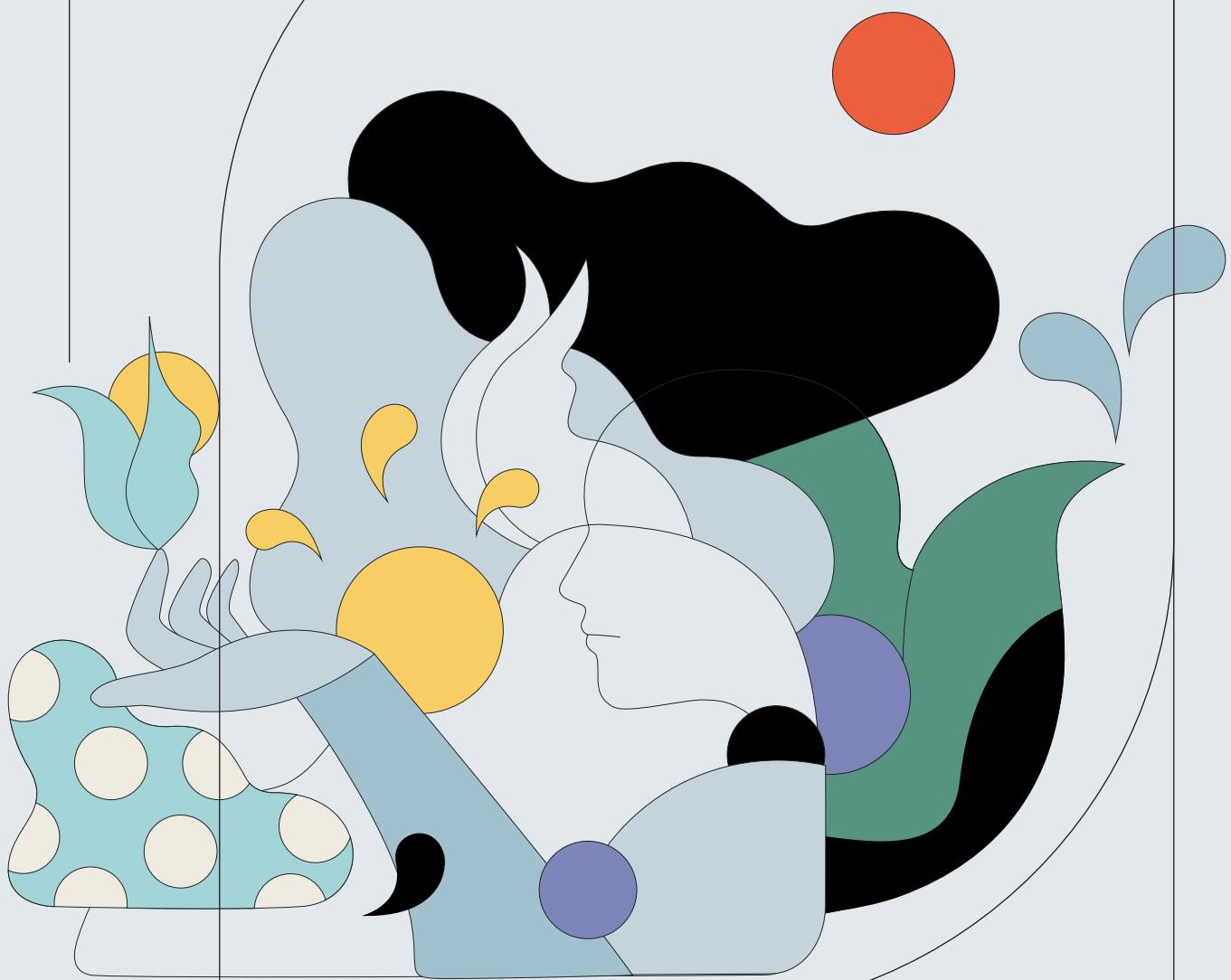




# Country profile - Finland

## Polices for longer working lives

CBSS with contributor Prof. Pertti Koistinen  
for BSLF for Sustainable Working Life Project



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# 1 INTRODUCTION

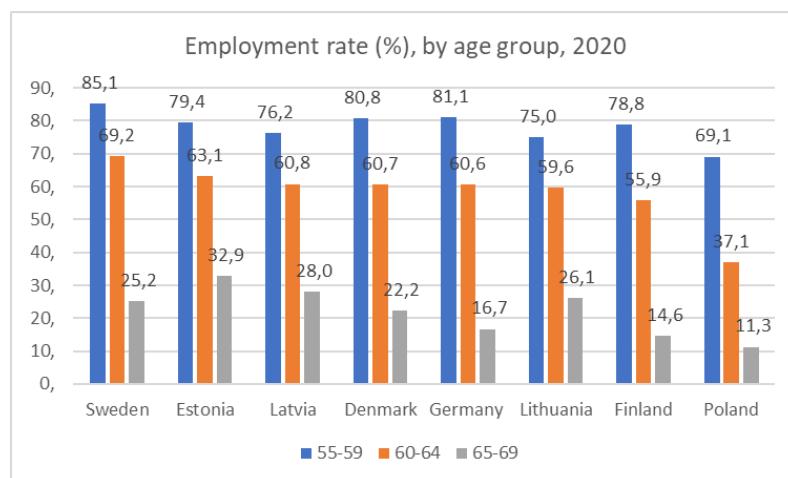
Finland had the 3<sup>rd</sup> highest old-age dependency ratio, i.e., the number of individuals aged 65 and over per 100 people of working age (20 to 64), of all OECD countries in 2020.<sup>1</sup> At the same time, fertility rates are shrinking, and the working-age population will decline. “Over the following decades, the change will be so significant that it will affect society as a whole and everyone involved in it”, wrote the Finnish Ministry of Social Affairs and Health in the preamble to its National Programme on Ageing<sup>2</sup> in 2020. An important measure for responding to one the effects of ageing populations – a shrinking labour force – is to focus on increasing employment rates among older workers. In this report, we will start with an outlook of the current employment situation of older workers, followed by an overview of policies that have been introduced in Finland to encourage later exit from the labour market. We will look at the effects – both desired and not – these reforms have had. We also include a section on results from research on factors affecting staying in work longer and conclude with a closer look at an academic study focusing on labour market attachment of older displaced workers.

## 2 EMPLOYMENT CHANGES

### 2.1 Low labour force participation rate for older workers

Labour force participation among older workers is substantially lower in Finland compared to other countries in the Baltic Sea Region (BSR). While employment levels in the age group 55-59 remained at 78,8% in 2020, which was not markedly lower than other BSR countries, the gap starts to show in the age groups 60-64 and 65-59 (Figure 1). Only 55,9% of people in the age 60 to 64 were employed in 2020, and 14,6% in the age group 65-69.

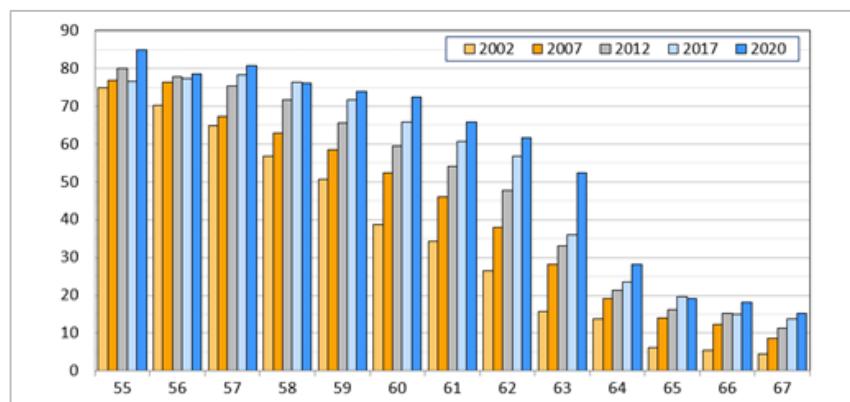
Figure 1. Employment rate (%) in Finland, by age group, 2020



Source: Eurostat

Over time, however, Finland has shown a positive development in increasing employment rates among older age groups (Figure 2).

Figure 2. Employment rates (%) in Finland per age, 2002-2020

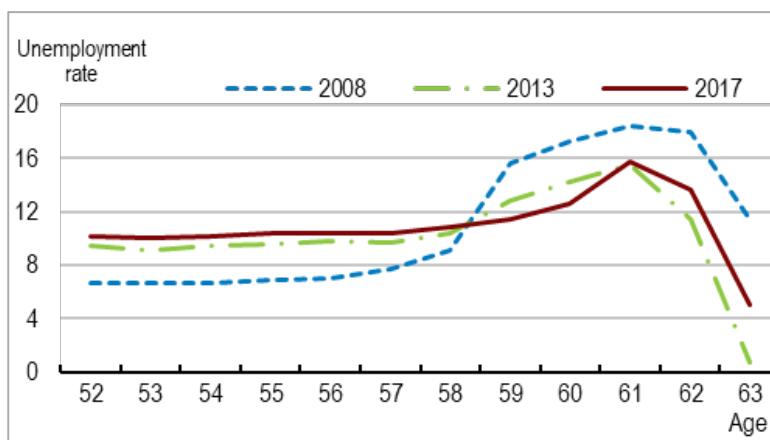


Source: Statistics Finland, Labour Force Survey

## Unemployment that increases towards the ages 58-59

Looking at the unemployment rate in the age group 52-63, a sharp increase was discernible between 2008 and 2017 towards the age of 58-59 (figure 3). An explanation to this trend is to be found in the so-called ‘unemployment pathway to retirement’ (*eläkeputki*). Persons above the age of 58 are entitled to extended unemployment benefits, and early retirement is encouraged through a direct route from unemployment benefits to age related retirement: older unemployed first receive the unemployment benefit for up to 500 workdays, followed by the extension of this benefit for those who are above the age of 61 until the retirement age of 65.

Figure 3. Unemployment rate (%) by age and over time.



Source: Ministries of Finance, Economic Affairs and Employment and Social Affairs and Health (2019).  
Selvityseläkeuudistuksessa sovittujen lisäpäiväoikeuteen ja ikääntyneiden aktivointiin tehtyjen muutosten vaikuttuksista.

According to research, these extra days of unemployment benefits increase the risk of older workers of getting laid off from their jobs, which would explain figure 3<sup>3</sup>.

## 3 POLICY OVERVIEW

One reason for the low employment rate among older workers is linked to more generous early retirement schemes in Finland.<sup>4</sup> A higher share of part-time employment in other Nordic countries compared to Finland might also be part of the explanation for lower employment figures in Finland compared to other Nordic countries.<sup>5</sup>

According to estimates by the Ministry of Finance of Finland, the group of employees over 55 is a key group for focusing on measures to promote increased employment rates.<sup>6</sup> In the Sustainable Growth Programme for Finland, which was adopted in May 2021, raising the employment rate is one of the four objectives.<sup>7</sup> In a preparatory study, looking at possible measures to increase employment rates among 55+, the Ministry of Finance proposed the following measures<sup>8</sup>:

- Abandoning the ‘unemployment pathway to retirement’ (explained in section 2.2.)
- Increasing the maximum amount of the deduction for earned income for persons aged over 60 (would strengthen employment for around 500 employed persons, it was estimated).
- A new 70% wage subsidy model for over-55-year-olds.

In 2019, the Government introduced an employment package with the aim to increase employment, which covered a wide range of measures, including some focussing on increasing the employment rate of older workers. Towards this end, social partners were given the tasks to propose measures to reduce early retirement and increase employment in older age groups through financially stable measures such as interventions with focus on skills development, well-being at work and preventing disabilities. The age for eligibility for extended unemployment benefits was also increased from 61 to 62.

The Finnish Centre for Pensions has estimated that the higher age threshold for the direct route from unemployment benefit to old-age pensions could decrease the number of unemployed by 7,400 and put 6,000 people into jobs by the year 2025<sup>9</sup>.

In December 2020, the Government outlined actions to promote the employment and work ability of person above the age of 55, while improving their skills and providing change security. One of the policies introduced was the elimination of the ‘unemployment path to retirement’. This means that the route between unemployment and retirement will be phased out by 2023.<sup>10</sup>

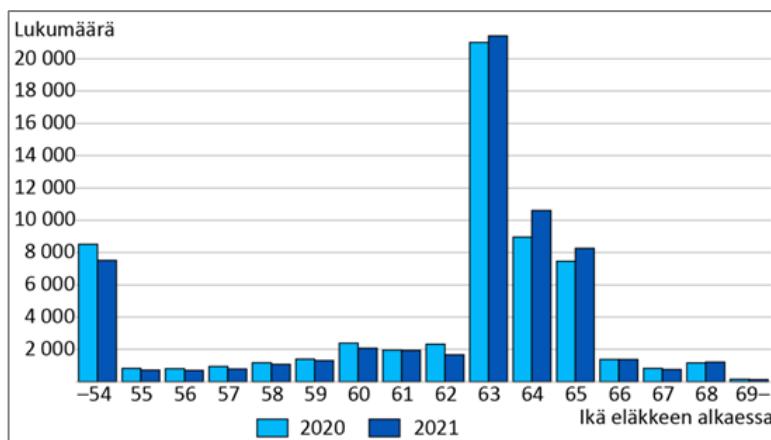
### 3.1 Pension reforms

The Finnish pension system underwent a major reform in 2005, when flexible retirement age (between the ages of 63 and 68) was introduced. The purpose was to prolong working life. Based on data it could, however, be argued that a new norm – to retire already at 63 – was instead established, a recent study concludes<sup>11</sup>. The reform increased the share of people retiring before the age of 64 with as much as 47%, data indicates. Furthermore, 10 years after the reform a large part retired already at 63, the

age of 65 had lost its importance as the usual retirement age, and very few stayed on to work until the age of 68 (figure 4), it can be argued.

In 2017, another pension reform introduced a progressive increase of the minimum retirement age to reach 65 by 2027 (3 months per year), and, after that, to then be linked to life expectancy. In a way, this is going back to the conventional method of attempting to prolong working life through adjustment of the official retirement age. In 2017, the part-time pension was also replaced with a partial old-age pension that incorporates a penalty that encourages later retirement.

Figure 4. The number of people retiring in 2020 and 2021, per age



Source: Finnish Centre for Pensions

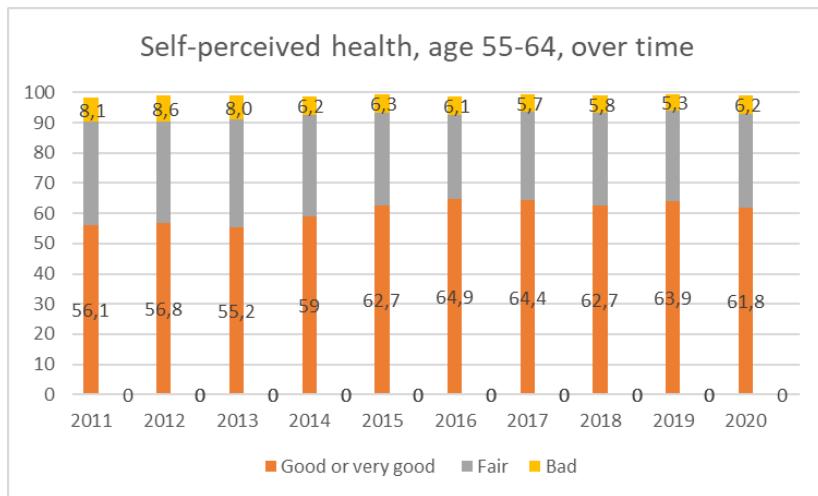
### 3.2 Reforms to tackle dependency on long-term benefits

Several reforms have been introduced to boost employment and tackle dependency on long-term benefits prior to retirement. One obstacle to accepting new employment among older unemployed is that a lower salary than the previous job would affect unemployment benefits negatively, if being unemployed again. To address this barrier, a legislative reform was introduced. Since August 2015, an older jobseeker who takes employment in a lower-paid job and subsequently become unemployed again, will receive an unemployment allowance that is based on the previous (higher) paid job. Furthermore, In January 2020, the minimum age for the additional unemployment insurance entitlement increased by one year.

### 3.3 Health

Self-perceived health has improved in the age group 55-64 in the last decade, with a perceived trend reversal due to Covid-19 in 2020 (figure 5). The share of persons aged 55 to 64 who perceived their health to be good or very good grew from 56,1% in 2011 to 64,4% in 2017, and after this has slightly shrunk. Self-perceived health as being bad also shrank, from 8,1% in 2011 to 5,3% in 2019, with a trend reversal due to Covid-19 in 2020.

Figure 5. Self-perceived health, age 55-64, over time



Source: Eurostat

Self-perceived health is markedly lower among unemployed persons in the age group 55 to 64 compared to employed people: in 2020, only 44,8% of the unemployed in this age group perceived their health to be good or very good, compared to 70,4% among the employed.

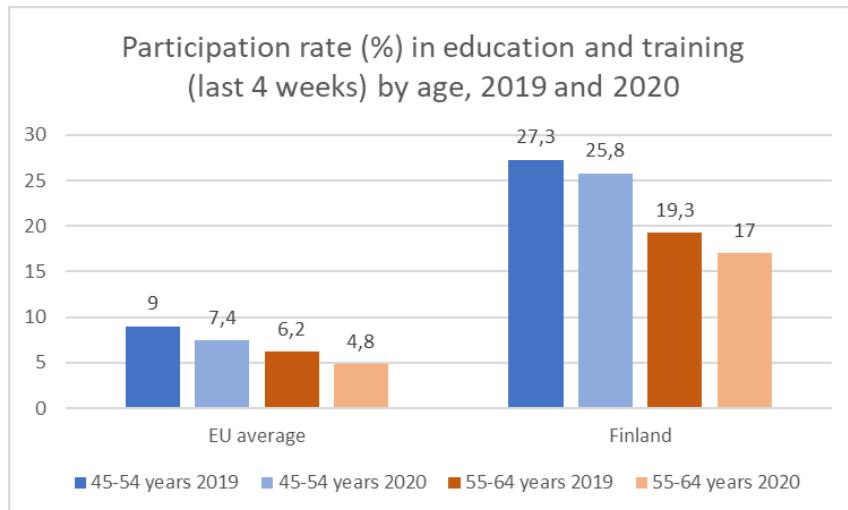
In 2020, the Ministry of Social Affairs and Health launched the National Programme on Ageing 2030. One of its six key objectives is to “extend the functional ability and working careers of older working-age people”. <sup>12</sup> This a cross-administrative programme, involving the Ministry of Social Affairs and Health, the Ministry of Education and Culture, the Ministry of Economic Affairs and Employment, the Ministry of the Environment, the Finnish Institute for Health and Welfare and the Association of Finnish Municipalities. The objectives to be achieved by 2030 are<sup>13</sup>:

- Preparing for ageing begins in middle age and continues when people retire (both by individuals and at the societal level);
- Different solutions and types of flexibility are used to ensure longer careers and prevent age discrimination in working life;
- The competence and coping of those working in the services for older people and the attractiveness of the sector have been improved.

### 3.4 Continuous learning reform

Participation levels in education and training among older age groups in Finland are well above EU average (figure 6). In 2019, 27,3% of people in the age group 45-54 participated in some form of training and education the last 4 weeks, compared to an EU average of 9%. Participation rates do, however, decrease significantly with age even in Finland. The figure for the age group 55-64 was 8 percentage points lower than the age group 45-54. Figure 6 also indicates a possible negative impact of Covid-19 on participation rates in education and training between the years 2019 and 2020.

Figure 6.



Source: Eurostat

In Finland, a reform of continuous learning is underway since 2019 and will be completed in 2023. Recognizing that the need for upskilling and continuous learning will increase due to the changing demands of work, the concept of ‘continuous learning’ was introduced “to emphasise the importance of upskilling and reskilling as opposed to lifelong learning, which takes place occasionally during a person’s lifetime”.<sup>14</sup>

The reform will include a focus on equity and reaching out to the most disadvantaged groups. Education and employment services are to be enhanced in a holistic manner, and guidance and services operating on the “one-stop shop” principle will be developed to also reach those who participate less in education and training. To find information and suitable services, a digital service is developed that combines education and training provision, guidance services and information on the labour market.

With this reform, continuous learning is to become a strategic part of firms and organizations, and workplaces to be used as learning environments. Tools and practices for skills recognition will be invested in, and the aim is also to improve the match between education and training and the needs of working life. The supply of education and training is to be enlarged, supplemented by flexible, short-term courses that quickly respond to needs in the labour market and allow people to be proactive in supplementing their competencies. The package includes mapping out and identifying competence and career planning services as well as foresight information. The reform will also invest in improving cooperation between workplaces and educational institutions so that skills and training better respond to the needs of the labour market.

### **3.5 What does research tell us? – Continuation of work at older age is determined by a complex interaction of factors**

Research indicates that work and employment trajectories become highly diversified in years of older age. The differentiation and retention of employment trajectories are shaped by factors such as increased life expectancy, level of education, gender, occupational status, and physical activity. Instead of one major model of employment, there are thus several competing trajectories of employment, and the diversity of trajectories increase over the life span.

Regarding ageing, it is an undisputed fact that current cohorts of employees are healthier today than ever before, but that the prevalence of diseases and physical and mental limitations increase with advancing age. Loss of physical functioning is an early marker of declining health and threatens the independence and quality of life of older people. However, based on a large longitudinal population-based study from 1992 to 2010, Stenholm *et al.* observed a greater increase in physical functioning difficulties during retirement than while still in full-time work.<sup>15</sup>

Besides financial incentives and pension reform, disability prevention is thus of central importance for prolonging working lives. Linked to this, a critical prerequisite for the extension of work careers, both before and after the retirement age, is the employee *work ability*.<sup>16</sup> The concept of work ability is defined as the balance between human resources and the demands of work.<sup>17</sup> The work ability index (WAI), that measures work ability, can be used to predict future disability, sickness absence, health, and even the mortality of workers.<sup>18</sup>

Disability prevention is related to the ability to create healthy and satisfying work conditions. “Although effective national- and corporate-level strategies supporting the promotion of well-being at work are needed, in addition to interaction between the worker, his or her supervisor, and the healthcare system, the prevention of disability always goes back to the worksite level”, Härmä concludes.<sup>19</sup>

The continuation of working careers at a later age is, however, a matter of determining social factors rather than physiological factors.<sup>20</sup> According to the findings of a study focused on cohorts born in 1966 in Northern Finland, employment trajectories most favourable for work-related well-being in midlife are long rooted in social investments during early life (mother’s attitude to financial self-reliance, father’s socioeconomic status, own success at school) and characterized by further social investments in employment, such as higher education and self-employment.<sup>21</sup>

Retention of employment trajectories after 55 years is a gender issue, as well. Data indicates that men working in the public sector continue to work even beyond retirement age more often than women.<sup>22</sup> This is explained by factors that increase the likelihood of extended employment, such as a spouse working full-time, no part-time retirement, low job strain, high worktime control, and lack of pain being more prevalent among men than women.

Regarding the differentiation of employment trajectories and institutions, research indicates interesting differences between population groups. A-J Riekhoff studied the segregation of careers of elderly people in Finland and the Netherlands, and emphasises the importance of taking a life-course perspective in efforts to delay retirement.<sup>23</sup> The

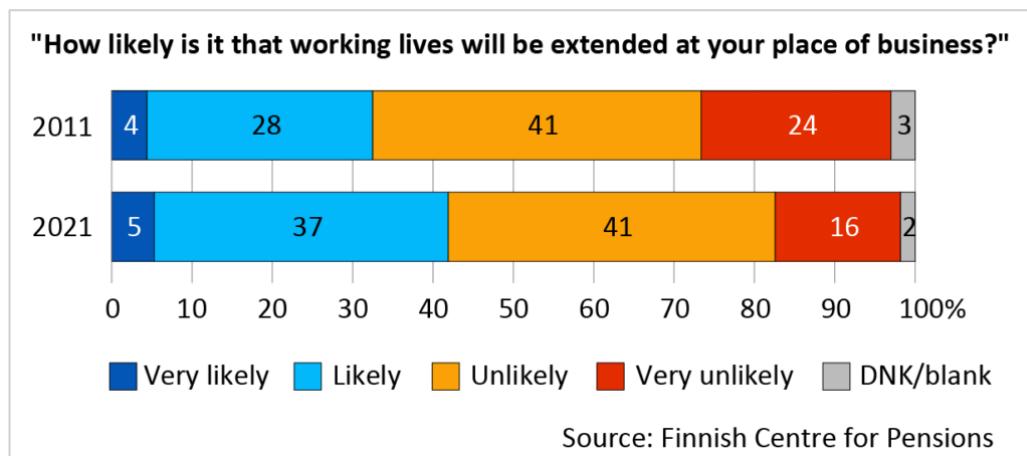
study found that closing of early exit pathways and pension systems in their national institutional contexts have had an effect on the length of working life. Secondly, gender and socioeconomic differences do shape the take-up of these trajectories in both countries.

Despite inclusive welfare regimes in both Finland and the Netherlands, there are large social inequalities in retirement. The degree of voluntariness and available opportunities is high among the healthy, educated, and well-off, while choices are limited for the ill, unskilled, and poor. These advantages tend to accumulate across a life course, the study concludes, noting that policies to prevent early exit from the labour market need to address the socio-economic equalities and be put in place early in life, and not only towards the end of working life.

### 3.6 Changing attitudes of employers in Finland

Results from a study conducted by the Finnish Centre of Pensions in 2021, examining the attitudes of employers towards extending working life, show a positive development over the years. In 2021, more than 70% of the employers agreed that workers can do typical tasks at the workplace until age 65, compared to around 50% in 2004.<sup>24</sup> This figure did differ between industries, however, where employers in sectors of information, communication and business were more favourable than those in the construction sector, for example. Despite these positive views, very few employers found that the working lives would be extended in their own business (figure 7).

Figure 7.



## 4 STUDY: LABOUR MARKET ATTACHMENT OF OLDER WORKERS FOLLOWING DISPLACEMENT

When companies close their operations or downsize, older employees are often at greater risk of being displaced. Exploiting a comprehensive Finnish employee-employer dataset, a study published in 2018 – *Labour Market Attachment Following Major Workforce Downsizings: A Comparison of Displaced and Retained Workers* – examined both displaced and retained workers and compared their labour market attachment during seven years following downsizing.<sup>25</sup> The focus of the study were plants that closed their operations or downsized by more than 30 per cent. From the research data, employees aged above 45 years were split by age into two groups: the 46- to 55-year-olds, who were not allowed to take the retirement route during the review period, and the 56- to 60-year-olds, who reached the retirement age during the review.

The study's main conclusion was that the pathway 'unemployment – unemployment pension – old age pension' was quite common not only among displaced workers, but also among those retained. Furthermore, the difference in the labour market outcomes of retained and displaced workers in the long run (7 years) was, surprisingly, not significant.

Looking at the displaced workers in the study, several lessons can be drawn. The study found that the employment trajectories after displacement differentiated strongly between age groups and in each age group. As expected, the number of people in the cluster 'nearly always employed' was smaller among the older age group than the younger one. The reason behind the weaker labour market attachment among the older age group (56- to 60-year-olds), was retirement at different stages and through different routes. Nearly one third of the people in this age group transferred to retirement via unemployment. Other routes used were work, part-time retirement and disability pension.

### **Educational attainment made a difference**

In the younger age groups, education made a difference not only in terms of reemployment but also in terms of how a displaced worker transferred out of the labour force. A lower level of education would seem to be linked to a transition to retirement on a disability pension. In this respect, the results of the study confirmed those of previous studies. Those who were most successful in being reemployed were those with the highest levels of education. Those with only a secondary-level education often transferred to unemployment or unstable employment patterns.

In the older age-group (56- to 60-year-olds), those without a vocational education or with no more than a secondary level education retired on an old-age pension via unemployment or a disability pension more often than did those with a higher-level education. Also in this age group, those with a higher-level education were more successful at being reemployed and transferred later from work to old-age retirement than did those with a lower-level education.

When reviewed by socio-economic standing, the upper white-collar workers in both age groups were more successfully reemployed than others. Compared to white-collar workers, the employment patterns of blue-collar workers more often included periods of unemployment after job loss. In the younger age group, a transition to part-time retirement was more frequent among blue-collar than white-collar workers. In the older age group, blue-collar workers transferred more often than white-collar workers to old-age retirement via the unemployment pension, the disability pension or unemployment.

## Working environment

The study also showed that factors relating to the workplace, like occupation, sector and employer, in particular, play an important role in channelling the displaced workers transfers to employment, out of the labour market as well the routes they take to retirement on an old-age pension.<sup>12</sup>

In both age groups, most of the displaced workers had worked in small or mid-sized organisations (measured in size of personnel) and in the private sector. Those who had worked in large organisations retired more frequently directly on an old-age pension after being made redundant than did those who had worked in small workplaces. In the younger age group, the displaced workers from small workplaces were more frequently unemployed or exhibited insecure employment patterns than the others.

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<sup>1</sup> <https://data.worldbank.org/indicator/SP.POP.DPND.OL?locations=OE>

<sup>2</sup> National Programme on Ageing 2030, for an age-competent Finland, Ministry of Social Affairs and Health, Helsinki 2020,  
[https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162596/STM\\_2020\\_38\\_J.pdf?sequence=1&isAllowed=y](https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162596/STM_2020_38_J.pdf?sequence=1&isAllowed=y)

<sup>3</sup> Kyyrä T., Pesola H., *The effects of unemployment benefit duration: Evidence from residual benefit duration*, Labour Economics, Volume 65, 2020.

<https://doi.org/10.1016/j.labeco.2020.101859>

<sup>4</sup> OECD Economic Surveys, Finland, December 2020

<sup>5</sup> Ikääntyneiden työllisyyden edistämiskeinoja valmistelevan työryhmän loppuraportti (transl. Final report of the working group preparing ways to promote employment of the elderly), Ministry of Social Affairs and Health, 2019  
<https://valtioneuvosto.fi/documents/10623/12045794/Ik%C3%A4ntyneiden+ty%C3%B6llisyyden+edist%C3%A4miskeinoja+valmistelevan+ty%C3%B6ryhm%C3%A4n+loppuraportti/f43a279c-c7c9-ab4b-4ffb-3e57e15b874b/Ik%C3%A4ntyneiden+ty%C3%B6llisyyden+edist%C3%A4miskeinoja+valmistelevan+ty%C3%B6ryhm%C3%A4n+loppuraportti.pdf?t=1552293406000>

<sup>6</sup> <https://vm.fi/en/sustainable-growth-programme-for-finland>

<sup>7</sup> <https://julkaisut.valtioneuvosto.fi/handle/10024/163363>

<sup>8</sup> [https://vm.fi/documents/10623/17688657/2020-12-17+%2B55\\_kokonaisuus\\_vaikutusarvio.pdf?t=1608217621207](https://vm.fi/documents/10623/17688657/2020-12-17+%2B55_kokonaisuus_vaikutusarvio.pdf/1c77c276-11d0-bb86-323e-57e273ee2fb1/2020-12-17+%2B55_kokonaisuus_vaikutusarvio.pdf?t=1608217621207)

<sup>9</sup> Reipas, K. (2019), *Muistio Eläketurvakeskus*, <https://www.etk.fi/wpcontent/>

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<sup>11</sup>Gruber J., Kanninen O., Ravaska T., *Relabeling, retirement and regret*, Journal of Public Economics, Volume 211, 2022, <https://doi.org/10.1016/j.jpubeco.2022.104677>.

(<https://www.sciencedirect.com/science/article/pii/S0047272722000792>)  
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<sup>13</sup>Ibid.

<sup>14</sup> <https://okm.fi/en/continuous-learning-reform>

<sup>15</sup> Stenholm S, Westerlund H, Salo P, Hyde M, Pentti J, Head J, Kivimäki M, Vahtera J., *Age-related trajectories of physical functioning in work and retirement: the role of sociodemographic factors, lifestyle and disease*. J Epidemiol Community Health. 2014 Jun;68(6):503-9. <https://pubmed.ncbi.nlm.nih.gov/24534071/>

<sup>16</sup> Härmä, *Adding more years to the work careers of an aging workforce – what works?*" Scand J Work Environ Health 2011;37(6):451-453)

[https://www.sjweh.fi/show\\_abstract.php?abstract\\_id=3198](https://www.sjweh.fi/show_abstract.php?abstract_id=3198)

<sup>17</sup> The concept was originally developed by Juhani Ilmarinen in 1999, for reference for example:

[https://www.researchgate.net/publication/335143300\\_From\\_Work\\_Ability\\_Research\\_to\\_Implementation](https://www.researchgate.net/publication/335143300_From_Work_Ability_Research_to_Implementation)

<sup>18</sup> Härmä, 2011

<sup>19</sup>Ibid.

<sup>20</sup>Ibid.

<sup>21</sup> Ek, E., Ala-Mursula, L., García Velázquez R., Tolvanen A. & Salmela-Aro K. (2021) *Employment trajectories until midlife associate with early social role investments and current work-related well-being.*, Advances in Life Course Research, 47(3):100391. DOI:10.1016/j.alcr.2020.100391

<sup>22</sup> 14.Myllyntausta, S. Virtanen, M. Pentti, J. Kivimäki, M. Vahtera J. & Stenholm, J, (2021) *Why do men extend their employment beyond pensionable age more often than women? a cohort study* , European Journal of Ageing,

<https://doi.org/10.1007/s10433-021-00663-1>

<sup>23</sup> 16. Riekhoff, A.J. (2018) *Retirement Trajectories in the Netherlands and Finland: Institutional Change, Inequalities, De-standardisation and Destabilisation*.

Yhteiskuntatieteiden tiedekunta – Faculty of Social Sciences; University of Tampere.

<https://www.julkari.fi/bitstream/handle/10024/136844/Retirement-trajectories-in-the-Netherlands-and-Finland.pdf?sequence=1&isAllowed=y>

<sup>24</sup> <https://www.etk.fi/en/topical-issues/employers-more-favourable-than-before-to-older-workers-most-employers-doubt-that-working-lives-will-be-extended-at-their-own-place-of-business/>

<sup>25</sup> Jolkonen, A. Koistinen, P. Kurvinen, A. Lipiäinen, L. Nummi, T. & Virtanen, P. (2017a) *Labour Market Attachment Following Major Workforce Downsizings: A Comparison of Displaced and Retained Workers*, Work, Employment & Society 32(6): 992–1010. doi: <https://doi.org/10.1177/0950017017706305>