

## **The flexible retirement age may flex in the wrong direction**

### **German professor: The pension reform still leaves too many incentives to retire early**

Professor Axel Börsch-Supan from the University of Mannheim, who evaluated the Finnish pension reform “through the eyes of an outsider”, thinks that also after the reform there are too many pathways which encourage people to retire earlier than desired. Even though the unemployment pathway to retirement was partly cut off, the German professor thinks that especially this option is still a too tempting choice.

He also questioned the real effects of the flexible retirement age, even though he thought giving the employees the right to choose their retirement age themselves an intelligent move. (...)

- Social norms are important. Now there is no clear signal which is the generally accepted retirement age, Mr Börsch-Supan explained at the seminar Riittävän hyvä eläkeuudistus? (Is the pension reform good enough?), arranged in Helsinki by the Finnish Economic Association and the Finnish Centre for Pensions.

According to him, the earnings-related pension contribution will also stay “very, very high” despite the reforms, which will weaken Finland’s competitiveness in the internationalising labour market.

At present the contribution is on average a little less than 22 per cent of the wage. The contribution is expected to increase gradually during the next few decades to about 27 per cent. If the reform had not been carried through, the contribution would have increased to over 30 per cent.

In his comment, Mr Jaakko Tuomikoski, Deputy CEO of the pension insurance company Ilmarinen, pointed out that, when comparing the Finnish pension contribution to that of the other EU countries, one should always take into account that in many other countries the pension consists of both public and private pensions, and so their contributions should also be added up.

- When taking this into account, the contribution level in Finland is lower than in many other EU countries, Mr Tuomikoski reminded us.

#### Complexity a cause for concern

Mr Börsch-Supan also criticised the long transition periods of the reform. They transfer the bill to the young generations. Mr Tuomikoski admitted this fact, but pointed out that there were not that many alternatives. The choice stood between a pension reform with long transition periods or no reform at all.

The German professor also criticised the complexity of the Finnish pension scheme: as regards complexity, the Finnish model competes with the Greek pension scheme. Mr Börsch-Supan applauded the life expectancy coefficient of the reform, as it will increase the transparency of the scheme and make it more fair. According to him, both these characteristics are basic building stones of a good pension scheme.

(...)

#### Careful with investments

Mr Börsch-Supan also emphasised the importance of funding. He thinks the level of funding will remain middling.

When making fund investments Finns should look more carefully where they invest, he says. At present most investments are in Finnish and other EU country promissory notes.

Mr Börsch-Supan further reminded us that they are loans from future generations.

(...).

According to Mr Tuomikoski, the sustainability of the reform fully depends on whether Finns will retire at a higher age than currently. The accelerated accrual from the age of 63 years should provide an incentive for this. If the accelerated accrual is not tempting enough, there will have to be a new round of reforms.

At present Finns exit working life at an age of somewhat less than 60 years. The aim is that the reform will increase the effective retirement age by three years during the

next few decades. (...). It will become possible to retire between the ages of 63 and 68 years.

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