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Grounds for amendment to the specific principles according to the EC Act on the transfer of pension rights

The principles according to the EC Act on the transfer of pension rights are applied when an official, an employee or a self-employed person transfers to the employment of the European Communities and the capital value, including interest, of the pension rights they have accrued is transferred to the pension scheme of the European Communities. The principles are also applied when the capital value transferred to the European Communities is returned after the official or employee leaves the employment in the European Communities.

The Act on the transfer of pension rights between the Finnish earnings-related pension scheme and the pension scheme of the European Communities (165/1999) came into force on 1 March 1999. The most recent amendments to the Act came into force on 1 January 2012 (1427/2011).

The previous amendments to the specific principles were made in 2012. The amendment provided for transfers and returns of pension rights of persons above 62 years. The current amendments take into consideration the 2017 pension reform and the amendments made to the EU Act on the transfer of pension rights.

Amendments

There are several amendments to the specific principles. The combined effects of the amendments do not have a significant impact on the transfer factors compared to the current ones. In later years, the value of the transfer factors for those approaching retirement age would be reduced. The effect of the amendments is shown in Figure 1.

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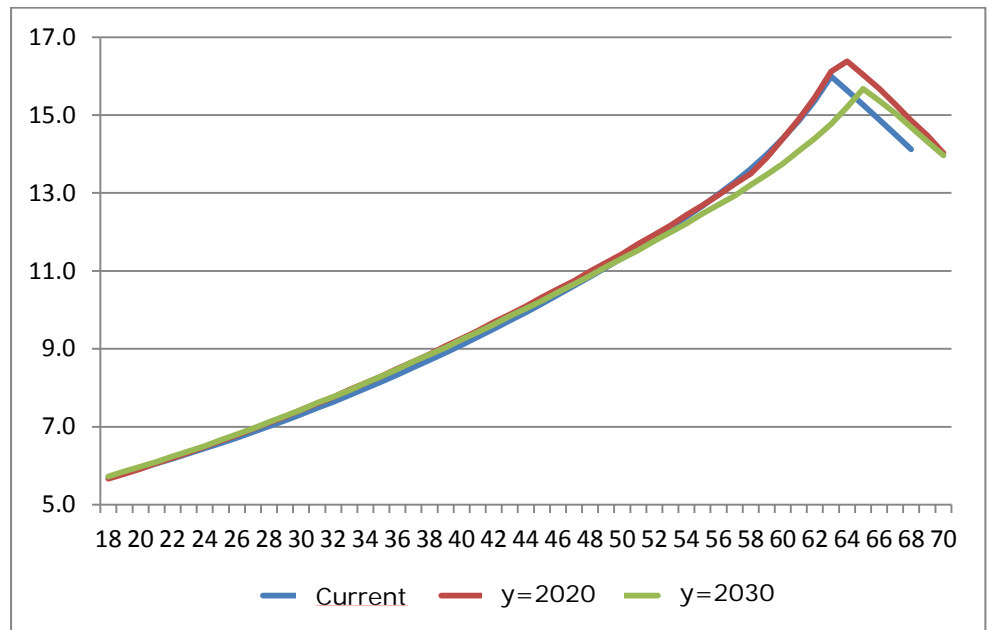


Figure 1: Value of transfer factors under current principles and the amended principles. The vertical axis describes the values of the factors on an annual basis and the horizontal axis describes the person's age.

Impact of the pension reform

The current calculation technique does not work now that the 2017 pension reform has taken effect. As a result, the life expectancy coefficient and indexes affecting the benefit levels would be paid more attention to in the future.

The life expectancy coefficient can be detached from the calculation of the capital value factors and used as such when calculating the transfer amount. As the life expectancy coefficient has not been confirmed for most transfer applicants, the estimated values of future life expectancy coefficients must be used in the principles. The estimates would be based on the most recent population forecast in the same way as they are in the long-term projections (LTP) of the Finnish Centre for Pensions.

The effect of the wage coefficient has been taken into account in the current principles by calculating the coefficients with two interests and weighing them based on age. This model is not suitable in the post-reform situation, so the calculation technique must be amended. In the future, the capital value factors would be calculated with an interest in agreement with the earnings-related pension index and adapted with the corrective factors of the future time.

In the current principles, the old-age retirement age is always 63 years. In the future, the retirement age of the age groups can be taken into account based on the person's birth year. If the applicant's retirement age has not been confirmed yet, it would be estimated as in the LTP calculations.

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Economic presumptions

In the current principles, the technical rate of interest is based on a presumed real return of 4.0 per cent on the pension assets and a real growth in wages of 1.75 per cent. The presumptions do not meet current economic outlooks, so they would be adjusted according to the long-term projections made in the autumn of 2016.

In the future, the economic presumptions would be divided into two time periods: the near future (next 10 years) and a later future.

	Real return of assets	Real growth in wages
Near future	3.0 per cent	1.0 per cent
Later future	3.5 per cent	1.5 per cent

According to the new economic presumptions, the values of the technical rate of interest and the wage adjustment term would be calculated as follows:

$$b_1 = \left[\frac{2}{3} \left(\frac{1.035}{0.8 + 0.2 \cdot 1.015} \right) + \frac{1}{3} \left(\frac{1.030}{0.8 + 0.2 \cdot 1.01} \right) \right] - 1 \approx 0.031$$

$$\rho = \frac{1}{2} \left(\frac{0.2 + 0.8 \cdot 1.015}{0.8 + 0.2 \cdot 1.015} \right) + \frac{1}{2} \left(\frac{0.2 + 0.8 \cdot 1.01}{0.8 + 0.2 \cdot 1.01} \right) \approx 1.008$$

The transfer principles refer to the general calculation criteria under the Employees Pensions Act (TyEL). At year-end 2016, the mortality model of the TyEL calculation criteria was amended. The equivalent amendment has been included into the draft of the transfer principles.

The handling of the age transfers differ technically in the draft compared to the TyEL special principles. In the transfer principles, the age transfers would be presented by age cohort per decade. That way the transfer factor graph would become smooth and no longer include notches every ten years.

The disability risk is also taken into account in the transfer amounts. The disability parameters b3, b4 and b5 have been adjusted in the draft of the basic principles so that they would better correspond to the realised starting new disability pensions in recent years. Factors b6, b7 and b8, which affect the presumed duration of starting disabilities, have proved to work sufficiently when calculating transfer amounts.

Other issues

In the current principles, the values of the transfer factors have been included in tables in an appendix. In this proposal, the transfer factors depend not only on the person's age but also on their year of birth. However, in practice, the values of the transfer factors do not need to be included in the principles. It is enough that the Finnish Centre for Pensions maintains a calculation basis and ensures that it is available to all pension providers.

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The integration of benefits in connection with survivors' pensions are taken into account when calculating the transfer amounts. In the proposed basic principles, the integration factor would be set to correspond to the most recent statistics.

According to the proposal, the value of the life expectancy coefficient when calculating the transfer amount would be the estimated value in the annex, even if another value was confirmed for the birth year cohort. The presumed mortality factor approximates the values presumed for the life expectancy coefficient. Since the mortality factor would not be adjusted annually with the confirmed value of the life expectancy coefficient, there would be no overall need for an annual update of the life expectancy coefficient of the EU transfer principle.

The age definition would also be adjusted since the current definition as far as the life expectancy coefficient is concerned does not work in the calculation. It would also mitigate the effect of the optionality connected to the calculation date of the transfer amount.

Frequency of calculation presumptions

The realisation and outlooks of the presumptions of the principles must be monitored. A new proposal of the principles needs to be made in case of significant amendments.

Entry into force

The principle is to be applied to the transfers and returns of pension rights that have been applied for on 1 January 2017 or later.