

The Socioeconomic Impact of The Increase in Pension Benefits on Social Security: A Case Study of Finland and Norway.

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Abstract:

The study sought to understand the socioeconomic impact of the increase in pension benefits on social security in Finland and Norway.

Deploying a qualitative research methodology, the research used secondary data gotten from OECD and Eurostat statistical publications to analyse to get the needed information and draw up a conclusion.

This study investigated the socioeconomic impact of pension benefits on social security. Findings from the secondary data used for this study revealed that there is a significant increase in the number of people who receive pension benefits from the two states. The study shows that between 2012 and 2020, Finland had an increase of 192,024 pensioners and Norway had an increase of 281,405 pensioners in the same year gap. Also Finland tax revenue dropped from 45.76 in the year 2000 to 41.85 in 2020, Norway dropped from 41.61 in the year 2000 to 38.71 in 2020. This shows that the government of these two countries are having more increase in the amounts they spend on paying pensioners and that they will run into great budget deficit if something is not done.

Keywords: Pension Benefit Increase, Social Security, Socioeconomic Effect.

1. Introduction:

The issue of pension benefits has been one of the major tasks on the table of every government ministry of social welfare, and this has led many to introduce policies that are inimical to the growth of the state's economy. In some countries, the government dips its hand into its coffers to meet the financial demands of its pensioners, thereby running on serious deficits (Einhorn & Logue, 2010). This is the reason a comparative study is needed in this area of social sciences to identify the possible social problems that might exist or might arise in the future for the economy.

This study will be an armchair of descriptive research that looks into the payment of pensions in three different Scandinavian countries: Finland, and Norway. The idea is to study these countries with almost the same population to find out if there is any problem with the increasing number of pensioners and identify the problem and the goals.

2. Description of Terms:

Pension Benefit

This is the money given to retirees for them to take care of themselves for the remaining days they have to live on earth. This is paid by both government and private organisations to those

older workers who have served the organisation for longer years and are due to rest from work due to their ages (Hansen, 2006).

Description of the chosen Scandinavian countries.

Finland is also a Nordic country in Northern Europe. It borders Sweden to the northwest, Norway to the north, and Russia to the east, with the Gulf of Bothnia to the west and the Gulf of Finland to the south, across from Estonia. Finland covers an area of 338,145 square kilometres (130,559 sq mi) with a population of 5,614,571 (Finland Central Intelligence Agency, 2023).

Norway has a total area of 385,207 square kilometers (148,729 sq mi) and had a population of 5,488,984 in January 2023 (Arealstatistics for Norway, 2019).

3. Statement of Problem:

The increasing number of pensioners has posed a serious problem to many countries around the world, especially those with little increase in income or high life expectancy. A vantage view on some statistical images presented by several statistical organizations, like the Eurostat and OECD datasets, shows that there is a significant increase in the number of people who receive pension benefits from these three countries. The research questions now are:

- In what ways do these increases in pension benefits mount negative pressure on the government purse and social security?
- What are the implications of the life expectancy rate for the growth of pension benefits?
- How does an increase in retirement age affect the chance of young people's entrance into the job market?
- What is the situation and condition of retired pensioners aged 65 to 75?
- In what ways can these social problems be remediated through social policy formulation?

The statistical datasets presented in this study show clear, concise, and specific statistics that describe

and prove the existence of the issues or problems highlighted above, and these are what this research is poised to address.

4. Literature Review:

The increase in the number of pension beneficiaries has always been an issue of discussion in many European countries. Many scholarly productions have delved into this issue from different angles to write about or research how the art of paying pensions to retired workers can be improved. According to the Organisation for Economic Cooperation and Development (2020), the increase in life expectancy in Finland has led to an increase in the retirement age. The organisation also came up with a prognostic result that shows that more increases are expected in years to come, leading to a retirement age of 68 by 2030. Between 2008 and 2020, the total number of beneficiaries in the EU Member States (receiving at least one type of pension) increased overall by 5.9%, while pension expenditure (measured in constant price terms) rose by 23.1% (Eurostat, 2023).

In their work, Simon-Rusinowitz, Wilson, Marks, Krach, & Welch (1998) emphasized the concept or theory of the baby boomer generation. The term is used to describe people born from 1946 to 1964 as part of the baby boomer generation. This generation's retirement has a substantial effect on pension systems, healthcare, the job market, and other aspects of society and the economy. This, as stated by Bonoli (2000), has led many researchers to dig into research in order to answer the question: does this increase really have any impact on social security?

The gap that my study is poised to fill, therefore, is to see if this impact or effect is a continental or sub-continental issue, hence the comparison of the pension benefit systems of these two Scandinavian countries, Finland and Norway.

Pension Systems in Europe:

The system of pension in Europe, especially in Nordic countries have been categorized into three pillars. The first is the Pillar 1 which is more social democratic in nature. The second is Pillar 2 which

is more conservative and depends on individual's involvement in the labour market, while the third is the Pillar 3 which entails a bulk savings for buying houses or starting a retirement business. In these Nordic countries, public pension scheme is

universal and covers the entire population. Entitlement to pension is acquired on the basis of residence in the countries but this research will be based on old age pension (Kangur, Martinez, Soto, 2021).

5 Datasets:

a. Table 1: Old Age Pension Beneficiaries at 31st December, 2020

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020
Finland	1,202,688	1,234,087	1,257,123	1,285,552	1,312,892	1,348,358	1,370,189	1,386,927	1,398,712
Norway	848,916	882,742	938,516	964,783	1,000,738	1,035,860	1,068,391	1,099,846	1,130,321

Source: EUROSTAT, (2023).

https://ec.europa.eu/eurostat/databrowser/view/spr_pns_ben_custom_8907466/default/table?lang=en

The table above shows that there has been a significant increase in the number of pensioners in these two states. Finland recorded a wopping increase from 1,202,688 pensioners as at 2012 to 1,398,712 in 2020. Norway also recorded an increase from

848,916 pensioners in 2012 to 1,130,321 in 2020. From the results generated from this secondary data, it is clear that these two Scandinavian countries are experiencing a rapid increase in the number of people receiving pension benefits.

b. Table 2: Employment Rate by Age Group. 55-64 years old, % in same age group, Q3, 2019 - 2022.

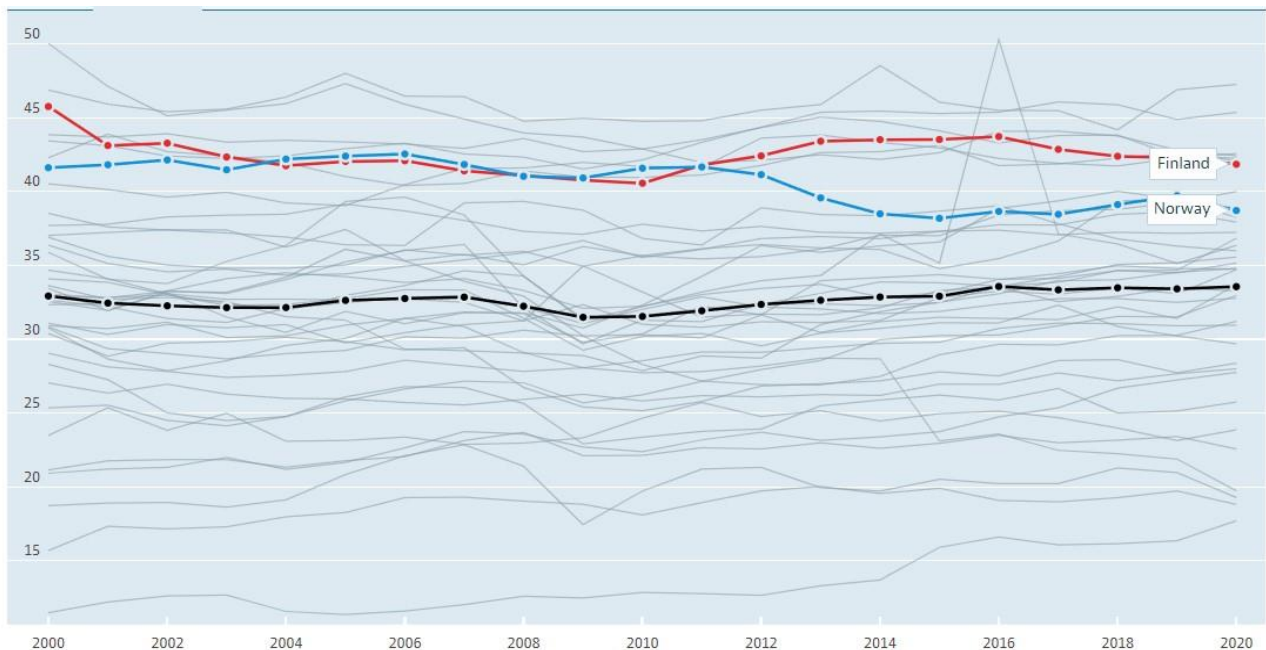
Country	Q3 2019	Q3 2020	Q3 2021	Q3 2022
Finland	66.48	66.63	68.42	71.61
Norway	73.34	72.56	74.92	73.68

Source: OECD, (2023). <https://data.oecd.org/emp/employment-rate-by-age-group.htm#indicator-chart>

This data above shows the percentage of employment in the two countries. The figures were generated from the 3rd quarters of 2019, 2020, 2021, and 2022 fiscal years.

The data shows a slow increase in the number of employed in the selected countries.

c. Table 3: Tax Revenue Total, % of GDP, 2000-2020



Source OECD, (2023). (<https://data.oecd.org/tax/tax-revenue.htm>)

This data generated from the OECD database simply gives us the information to know the

eligibility age of joining the teaming pension receivers' poll in the three countries of study.

d. Table 4: Life Expectancy at Birth in Finland and Norway, 2021

S/N	Country	Life Expectancy
1.	Finland	84.6
2.	Norway	84.7

Source: EUROSTAT, (2023) https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Table01_Life_expectancy_at_birth_2021.png

The table above shows different life expectancy rate for Finland, and Norway. This data from Eurostat shows the average age at which people stay alive in these countries. This is also a pointer to how long pensioners are likely to receive pension benefits which can cause an increase in the pension fund.

6. Discussions:

This present study investigated the socioeconomic impact of pension benefits on social security. Findings from the secondary data used for this study revealed that there is a significant increase in the number of people who receive pension benefits from the two states. The study shows that between 2012 and 2020, Finland had an increase of 192,024 pensioners and Norway had an increase of 281,405 pensioners in the same year gap. Also Finland tax revenue dropped from 45.76 in the year 2000 to 41.85 in 2020, Norway dropped from 41.61 in the year 2000 to 38.71 in 2020. This shows that the government of these two countries are having more increase in the amounts they spend on paying pensioners and that they will run into great budget deficit if something is not done.

The datasets also shows a clear increase of employment rate of age 55 to 64. As this is the last age gab before retirement, it gives more credence to my hypothesis that the these countries are having an unquantifiable increase in the number of pensioners.

Also, the findings of this study clearly show that life expectancy projections are on the increase and will be higher in the years to come. This means that pensioners spend longer years of their lives receiving pensions from the pension fund. If life expectancy was low or is going low, it could have

meant that more people are leaving the pension list, and this will not mount pressure on social security. The two countries studied in this research have an average retirement age of 65.833 and an average life expectancy of 84.2. With this figure, it is clear that most pensioners in these countries live in retirement for more than 18 years of their lives, thereby creating pressure for social security.

Comparatively, there are not many differences in the data collected for the two countries, as they all share almost the same figures in both population, retirement age, employment rate, and life expectancy rate.

7. Solution to Problem:

To solve the problem of the unquantifiable increase in pension, I suggest that the following solutions be applied:

a. Increase in Tax Revenue:

The OECD's annual Revenue Statistics report found that the tax-to-GDP ratio in Norway increased by 1.9 percentage points from 42.4% in 2021 to 44.3% in 2022. The tax-to-GDP ratio in Norway has increased from 41.6% in 2000 to 44.3% in 2022. Norway ranked 2nd¹ out of 38 OECD countries in terms of the tax-to-GDP ratio in 2022. In 2022, Norway had a tax-to GDP ratio of 44.3% compared with the OECD average of 34.0%. One of the ways they achieved this is by creating a substantially higher revenues from taxes on corporate income & gains, and higher revenues from taxes on personal income, profits & gains. I believe Finland need to follow the same process to increase their tax revenue (OECD, 2023).

b. Gradual Retirement Scheme:

Paid and unpaid labour has a way of contributing not only to the material well-being of older people but also to their psychological well-being through social interactions and opportunities for personal and professional growth. It is not always a good idea to retire people simply because they have reached a particular age. There are people who are still healthy and active enough to continue offering their services even after reaching retirement age. The government should allow retirees to really choose if they want to be retired. Even when the issue of retirement becomes necessary, they should apply a gradual retirement scheme to allow people of retirement age to work part-time and contribute to the labour force until physical conditions or advanced age make it impossible for them to continue.

c. Reduction of Tax Payment for Workers with Retired Parents:

The government can also encourage young workers to take care of their retiree parents by reducing the taxes these workers pay. By doing this, the government will have no need to pay the pension for retirees in this category.

d. Tackling the problem of corruption in the pension system:

The system of pensions in these countries has been marred by many incidents of corruption from government officials and political officeholders. Capital punishment should be introduced in order to deal with those found guilty of mismanaging pension public funds as a deterrent.

8. Conclusion:

This assignment has exposed me to the world of pensions, dragging me into deeper research on the issues of retirement, employment, and life expectancy. I have seen a very big gap between pension processes in Europe and have compared it with what we have in Africa, especially in my country, Nigeria. My major observation has been that there is a well-managed structure of taxation and revenue collection in Europe that is used to run an effective pension system, and this is not easily seen in Africa. But going forward, the pension

systems in Europe might run into great danger due to the increase in pension benefits. If these issues are not addressed by employing the solutions I have proffered above, the whole beauty of the pension system in Europe might become a beautiful nonsense.

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