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<p>Tiivistelmä-Referat-Abstract</p> <p>The pension system forms a highly significant part of the whole social welfare system. The impact of the pension system is not limited to the financial aspects, but, for example, labour markets, savings, capital accumulation and income distribution can be affected. This study considers the effects of the pension system on the labour supply of the elderly. As the Finnish pension system is mainly a Pay-As-You-Go system, the concurrent change in the demographic structure, compounded by increased early retirements, is likely to yield strong pressures on the financing of the current pension system.</p> <p>The study evaluates early withdrawals by the elderly from the labour force. It assesses the significance of the implicit economic incentives, provided by the pension system, to retire early. The incentives are measured by an option value to retirement. Transition probabilities are considered in a random effects probit model, using the data from the Employment Registry of the Statistics Finland.</p> <p>The empirical results provide evidence that economic incentives matter also to the Finnish labour force. The results reveal that if an individual gains financially by postponing his retirement, he is more likely to do so. Simulations show that two of the implemented and contemplated policy reforms have a desired impact on the retirement probabilities.</p>			
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