

Heikki Niemelä and Kari Salminen

# Social Security in Finland



## **Finland in 2002**

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**Inhabitants: 5.2 million**

**Average life expectancy: men 74.9 years, women 81.5 years**

**Area: 338,148 km<sup>2</sup>**

**Gross national product/inhabitant: 26,863 euros per year**

**Economic structure: primary production 6%, secondary production 27% and services 67%**

**Religion: Evangelical-Lutheran 85%**

**Political system: parliamentary democracy**

**Overall fertility rate: 1.72**

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Helsinki 2003

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# Foreword

In 1989 and 1992 the Social Insurance Institution of Finland (Kela) published a review entitled "Social Security in Finland" that was mainly intended for foreign readers. The review was well received, and was distributed in several languages to embassies and international conferences via Finland's diplomatic service. Changes in Finnish social security, globalisation and further European integration and enlargement have increased the need for a new publication. The Social Insurance Institution (Kela), the Finnish Centre for Pensions and the Finnish Pension Alliance – TELA therefore decided to prepare this joint publication on Finnish social security.

The publication seeks to provide a concise outline of the historical development of Finnish social security, and of its current state and prospects. The review begins by describing the evolution of Finnish social security – especially in the post-war period – and then goes on to explain the current state of social welfare benefits, health-related social security and social services with particular reference to social welfare benefits. Social expenditure and its financing are not described together with social security benefits, but in a separate chapter.

A working group was appointed to examine drafts of the publication and provide commentary on the manuscript at various stages. This working group included Pirkko Jääskeläinen and Lauri Kaarisalo, who were succeeded by Kimmo Kontio and Pekka Piispanen, and also Jorma Jauhiainen, Pertti Pykälä and Reijo Vanne.

Professor Emeritus Hannu Soikkanen and Mikko Kautto Ph.D. also read through the draft and suggested various constructive changes, which we have tried to accommodate where possible. Head of Department Jussi Haapa-aho, Chief of Health Research Timo Klaukka, Markku Mansner, Docent, and Head of Planning Olli Valpola have also read the draft and made some necessary modifications.

Responsible Language Reviser Kaino Laaksonen checked the Finnish text and worked with Kristiina Gyllenbögél to prepare the publication for printing. The graphs and tables were prepared by Anne-Mari Saari.

We would like to thank all of the foregoing for their co-operation.

Helsinki, September 2003

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# 1. The formation of Finnish social security<sup>1</sup>

For reasons of social structure, history and politics, the formation of social security in Finland has differed from that of the other Nordic countries. For many years Finland remained more dominated by agriculture than her Nordic neighbours. Even in the 1950s the number of farms in Finland was increasing while their average size remained the same, whereas the number of farms in the other Nordic countries was decreasing and the average size of farms was growing. In terms of history, Finland differed from the other Nordic countries in that it was an autonomous Grand Duchy of the Russian Empire over the period 1809–1917, with no parliamentary administrative practices of its own. This meant that many reforms, such as the introduction of compulsory schooling and the reform of poor relief, were postponed until the 1920s following Finnish independence. Finland had developed its own autonomous nation State, however, with a Parliament, albeit one with limited powers, elected in 1907 by universal suffrage, making Finnish women the first in Europe to secure voting rights. From the 1860s onward Finland had grown apart from Russia. The political reasons that made Finland different from the other Nordic countries arose on account of the 1918 civil war that accompanied the attainment of national independence.

Finland was a poor country that industrialised at a late stage, but it caught up with the other Nordic countries and Western Europe economically, socially and politically in the 1920s and 1930s. Finland at this stage could be characterised as a small, open economy, in which exports mainly depended on the products of the forest industry and were thus highly vulnerable to international economic trends. The social impact of the forest industry was profound, as much of the Finnish forest was owned by peasants. Procurement and transport of wood provided work for the landless people of the countryside and for smallholders. This meant that agriculture and the forest industry were interlinked, and smallholders could make a living by supplementing their incomes from forest industry sources.

Aside from workers' compensation insurance, Finnish social security remained underdeveloped by comparison with other western European countries in the interwar period. With the exception of State civil servants, for whom a Pensions Act was introduced in 1924, most Finns were not covered by a social security scheme in the form of insurance. Social security at this time chiefly depended on municipal poor relief – as it had done during the pre-independence period as an autonomous Grand Duchy. Finland was a national agrarian society, in which economic policy was governed by liberalism emphasising free enterprise and individual initiative, and in which the independent smallholder was viewed as some kind of ideal. The civil war had also divided the country both politically and socially.

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<sup>1</sup> Social security is here understood in the broad sense to include income protection, health-related social security and social services.

Although no progress occurred in social security, extensive land reforms were implemented, including the liberation of crofters in 1918 and the Settlement Act of 1936. These reforms were viewed as measures to bring equilibrium in social development and reinforce social peace with a peasant vision. Through the liberation of crofters and the division of farms, Finnish agriculture became dominated by smallholders, which may be understood to have ultimately hindered the rise to power of right-wing radicals. Besides the land reforms, Finnish labour laws were revised in the 1920s: the Employment Contracts and Employment Regulations Act took effect in 1922 and the Collective Agreements Act in 1924. The Poor Relief Act was also reformed in 1922, the Workers' Compensation Insurance Act took effect in 1925, and the Health Care Act entered into force in 1927.

By contrast with many western European countries in which the evolution of compulsory social insurance began with sickness insurance, the development of Finnish social insurance started from old-age and disability insurance, which was mainly due to the country's agriculture-dominated social and industrial structure. This gave rise to the 1937 National Pensions Act. The National Pensions Act was considered a significant socio-political reform demonstrating a democratic tendency, and resulted from the new red-chrome government co-operation between the Social Democrats and the Agrarian Party. This typically Nordic political co-operation in the 1930s was a reaction to extremist tendencies from both the left and the right. In the other Nordic countries such government coalitions began to tackle the economic recession and the development of social security in the early 1930s. Finnish social security began to develop towards the end of this decade.

The National Pensions Act was one of the most important socio-political reforms in Finland in the interwar period, and together with the Maternity Grants Act (1938) and the new Workers' Compensation Insurance Act (1935) this meant significant progress in the evolution of Finnish social security. The National Pensions Act shifted the trend in social insurance away from employee insurance and towards national insurance. Attitudes towards the development of social security in Finland became more positive at this time.

## 1.1. The period of reconstruction

Finnish social thinking changed after the Second World War. The Winter War united the formerly divided people, and the Central Organisation of Finnish Trade Unions (SAK) and the predecessor of the Confederation of Finnish Industry and Employers agreed in January 1940 on negotiations in a spirit of comradeship in arms. A new way of thinking, stressing common responsibility, fairness and social security, emerged in the wake of this wartime spirit. Social security reforms were viewed as measures to reinforce national unity. National unification was one ideological basis in the evolution of Finnish social security schemes after the war, and it also affected the emergence of the incomes policy system at the end of the 1960s.

Although Lord William Beveridge's social security plan (1942) was known in Finland, a similar way of thinking about social security evolved independently through the wartime

experiences.

Finnish post-war social policy changed with the varying fortunes of political parties and a manifold increase in membership of labour market organisations. The status of these organisations was emphasised in the post-war rationing period, and Finland developed into a labour market interest group society. The principal challenges of the reconstruction period were payment of war reparations, assistance to war invalids, widows and orphans, and resettlement of displaced persons. Resettlement based on the Land Procurement Act involved redistributing almost twice the amount of land as was redistributed by the 1918 Liberation of Crofters Act, and more than 100,000 smallholdings were created for Carelians and front veterans.

It was no longer financially possible to improve social security, but the 1937 national pension scheme was nevertheless reformed and a family allowance scheme was introduced in 1948. The family allowance scheme may be viewed as a significant socio-political reform, as family allowances covered all families with children (600,000 children). As these allowances were paid to mothers, many women received money of their own for the first time. The workers' compensation insurance scheme was also extended in 1948 to include white-collar workers, and expectant mothers became eligible for maternity grants in 1949.

Inflation caused mainly by the war eroded the insurance savings principle that had formed the basis of the 1937 National Pensions Act. After the war, supplementary pensions began to develop on the subsistence principle. The emphasis of the National Pensions Act shifted from the insurance principle to the subsistence principle, whereby pension benefits are paid from tax revenues and eligibility for them does not require payment of insurance contributions. While the old national pension scheme was of little significance in its last days, the financing of the scheme played an important role during the reconstruction period in creating a State-led basic energy industry.

Following the national pension reform of 1956 the national pension ceased to be earnings-related, and became a means-tested and flat-rate pension. Funding was discontinued in the financing of the national pension scheme and a PAYG system was introduced whereby pension expenditure is mainly financed through annual premium income. The preference for the flat-rate model may reflect the strong position of the rural population, which was further supported by the 1956 general strike. The labour market organisations viewed the national pension reform as a victory for the rural population and smallholders, as they thought that this would mean an income transfer to the rural population. The 1956 national pension reform was the most significant socio-political reform of the 1950s, and overall pension expenditure increased 2.5-fold between 1956 and 1957. Monthly payments of the national pension meant that for the first time many elderly women in rural areas began receiving money of their own on a regular basis.

#### *From poor relief to social welfare*

In the same year as the National Pension Act reform, the long-pending reform of the Poor Relief Act was also implemented through the 1956 Social Welfare Act. Unlike the 1922 Poor

Relief Act, the new Act no longer required absolute poverty, i.e. being without means, as the criterion of eligibility for social assistance, but an actual lack of earnings disposable for subsistence at any given time. This meant that preventive care could also be given to people of limited means and not only to the indigent. Social assistance included ensuring necessary maintenance and care, together with other support to improve the income and the state of health and welfare of the claimant and of the claimant's family. The Social Assistance Act signified a departure from poor relief, even though there was little change in the criteria of eligibility for social assistance.

### *The broadening of health care*

Co-operation between the State and local authorities in developing health care mainly concerned the treatment of tuberculosis and mental illness, especially in the early 20<sup>th</sup> century. It was at this time that the local authorities collaborated to construct and operate mental hospitals and tuberculosis sanatoria with State support. Combating tuberculosis was a crucial issue in post-war health care. One indication of this was the fact that under the 1948 Tuberculosis Act, local authorities had a duty to take educational measures against tuberculosis as a condition for receiving State subsidies.

Co-operation between the State and local authorities in the field of health care can be said to have started in earnest with the 1943 General Hospitals Act and the 1950 General Hospitals Construction Act. These acts provided for the establishment and construction of general hospitals and local hospitals for general medical care jointly by the State and local authorities, which also contributed to the costs of the programme. A programme to build general hospitals began, and the first such hospitals began operating in the early 1950s.

The 1956 Hospitals Act introduced a uniform nationwide hospital plan. Medical and health care were assigned to the local authorities, and the general hospital districts formed a federation of local authorities. The Act specified the hospital districts and the membership of local authorities in these federations. Accordingly, the country was divided into 21 general hospital districts, each with its own general hospital. A general hospital district may also include district hospitals maintained by local authority federations, and municipal local hospitals. Under the Act, the State commissioned the building of general hospitals and then transferred ownership of the completed hospitals to the local authority federation of the general hospital district. This meant that a network of general hospitals was built, so that by the end of the 1970s every general hospital district had a general hospital.

## **1.2. The emergence of modern social insurance**

The end of the rationing period at the beginning of 1956 signified a change in the direction of Finnish economic policy. After the 1957 devaluation imports from the West were deregulated and Finland joined EFTA in 1961. The country's economic policy began to

stress the importance of economic growth and growth policy. Accelerating economic growth became an important social issue due to Finland's international competitive position, and this called for industrialisation. Economic growth was also felt to require broader social security, as social income transfers were held to boost consumer demand, thereby securing the conditions for economic growth. This signified the emergence of modern social security, as it enabled large population groups to have access to the social security system. The change in the social structure of Finland accelerated, and by the mid-1970s the country had changed from an agrarian society to an industrial and service society.

The unemployment benefit reform of 1960 indicated the direction of the evolving social security system. Based on the work of the unemployment security committee, the Agrarian Party minority government proposed a national mandatory unemployment insurance scheme. The employers' organisation took the view that unemployment security should be constructed on a voluntary basis, and should apply only to industrial workers and not smallholders. The employers felt that rural unemployment was a structural problem that should be resolved through national economic policy. The Agrarian Party dropped the idea of compulsory unemployment insurance when a proposal was made to solve the rural unemployment problem by establishing an unemployment allowance scheme in parallel with the unemployment fund scheme administered by the trade unions. The unemployment benefit reform was the first to link the evolution of social security to economic growth and the implementation of structural change in society.

*The earnings-related pension acts* were enacted in 1961 under pressure from labour market organisations as a labour market solution based on a private member's bill. The abolition of earnings-linking in the national pension scheme may be viewed as one of the main reasons for the emergence of the earnings-related pension scheme, as the national pension scheme was no longer felt to ensure sufficient employee pension provision. Under the earnings-related pension scheme, entitlement to a pension is based on an employment contract, the pensions are earnings-linked, and they are based on a vesting principle. Under this principle, employee pension rights are conserved even when the employer changes. The earnings-related pension scheme seeks to secure the level of consumption reached by those who have participated in working life, whereas the national pension seeks to guarantee minimum pension provision for everyone living in Finland. The earnings-related pension scheme is financed from partial funding that sought both to safeguard pensions and to support industrialisation and investment by enterprises through a system of automatic reborrowing. The reborrowing scheme enables an employer to issue a bond in payment of the portion of the contribution that is not immediately needed to defray pension expenditure.

A third significant socio-political reform in the early 1960s was the introduction of *compulsory sickness insurance* in 1963. Under the Sickness Insurance Act, everyone living in Finland is insured in the event of illness, pregnancy and childbirth. The Sickness Insurance Act prescribes two main forms of compensation: on the one hand medical care insurance reimburses the necessary costs incurred by illness, pregnancy and childbirth, while on the other hand daily allowance insurance provides compensation for loss of earned

income due to these circumstances. The right to daily sickness benefit covers persons aged 16–64, and includes an earnings-related daily allowance and a minimum daily allowance. As an element of sickness insurance, maternity insurance guaranteed a maternity allowance and important maternity welfare services to all expectant mothers. New prospects were also created for rehabilitation and preventive health care, as was a basis for early rehabilitation. The sickness insurance scheme significantly improved the social security system, encouraging a shift in the emphasis of health care towards non-institutional care, which was also supported by the 1972 Primary Health Care Act.

The reform of the unemployment benefit system and the emergence of the earnings-related pension scheme and sickness insurance constituted a significant enlargement of the social security system and the emergence of modern social insurance. The reforms tended to reinforce the role of labour market organisations in the evolution of social security, and the development of earnings-related social security was given priority.

### **1.3. Social security becomes part of incomes policy**

The drive for national unity, the new direction in domestic policy and the unification of the labour movement helped Finland enter the era of comprehensive incomes policy settlements in 1968. The rise of the Social Democrats as the leading government party also created political opportunities for the development of a labour market-driven social policy. The changeover to an incomes policy negotiation model meant new social expansion and accelerated structural change in Finnish society. The comprehensive incomes policy agreements were drawn up against the background of a national unification ideology through participation of the labour market organisations (the Central Organisation of Finnish Trade Unions – SAK, the Confederation of Finnish Employers – STK and the Central Union of Agricultural Producers and Forest Owners – MTK), popular front governments and the President of the Republic. Improving employee earnings-related social security took precedence in the field of social policy, and the evolution of social security was linked to a reform policy based on economic growth seeking to ensure the country's international competitiveness and making Finland a modern industrialised welfare state.

Pension provision for State and local government officials and employees became earnings-based on the model of the private-sector earnings-related pension scheme. By the 1970s the national and earnings-related pension schemes had been extended through survivors', unemployment, and front veterans' pensions. A pension scheme was introduced for farmers and self-employed persons and was linked to the earnings-related pension scheme in 1970. This meant that the entire working population was then covered by an earnings-based pension scheme. The target level for private-sector earnings-related pensions rose to 60 per cent of earnings in 1975, and earnings-related pensions were given priority over the assistance component of national pensions. This meant shifting the emphasis in the evolution of pension provision from the national pension scheme to the

earnings-related pension scheme, which was well-suited to an incomes policy based on economic growth and industrialisation.

The continuous economic growth enjoyed after the Second World War came to an end in the OECD countries with the oil crises of 1973 and 1979. Finland suffered recession later than the other OECD countries, and economic growth stagnated in 1975–1977. The recession signified a new direction in Finnish economic policy, and from 1977 the State began to support the competitiveness of enterprises through economic recovery measures. Finland managed to weather the recession fairly rapidly, thanks to her trade with the Soviet Union, and in the 1980s economic growth in Finland was indeed more rapid than the European average.

The first three stages of the national pension reform were implemented in 1980–1985, but more slowly than planned on account of the economic situation. The national pension became a taxable, but non-means-tested personal minimum pension payable to all residents of Finland. During the era of incomes policy settlements the national pension reform was the first significant socio-political reform in which pensioners' organisations played a significant role in implementing the reform. Flexible retirement age arrangements were implemented in the national and the earnings-related pension schemes and in the State and local government pension schemes in 1986–1989. This solidified the roles of the national and the earnings-related pension schemes.

The SOVE reform of sickness allowance and accident and motor liability insurance was agreed by the labour market organisations as part of the 1981 comprehensive incomes policy agreement, and the reforms took effect in 1982. Sickness allowances and benefits from accident and motor liability insurance were increased and became taxable. The daily allowances and maternity allowances payable from sickness insurance almost doubled, and the daily allowance took precedence over earnings-related pensions. The unemployment benefit system was reformed in 1985 as part of the comprehensive incomes policy settlement agreed by the labour market organisations in 1984. The reform changed unemployment assistance and unemployment benefit into earnings-related unemployment allowance and basic unemployment allowance, respectively, and the said allowances were increased and became taxable. The reforms further reinforced the link between Finnish social insurance and gainful employment. However, taxation of benefits tends to reduce income differentials.

## 1.4. Health care and social services become universal

### *Health care services become extensive*

While the principal objective in the 1960s was to achieve broad and extensive health care services, the aim of health care policy in the 1970s was to prevent illness and establish a comprehensive health care policy.

The 1972 Primary Health Care Act effected a fundamental reorganisation to promote

primary health care. The Act shifted the emphasis in health care policy towards non-institutional medical care and health care. It sought to guarantee universal and equal health care services in various parts of the country and for various population groups. Health care functions were arranged in health centres run by local authorities or local authority federations, which meant the emergence of public primary health care services. Local authorities were required to arrange medical care services, school health care for residents and dental care for persons aged under 17. The State contributed towards the costs of primary health care according to the financial capacity classification of each local authority. The Primary Health Care Act allows patient access to local authority health care services and private health care services, both of which are reimbursed through sickness insurance.

*Occupational health care* developed from the implementation of sickness insurance by including a provision in sickness insurance legislation on reimbursement of employers for the costs of occupational health care according to national sickness insurance reimbursement criteria. The Primary Health Care Act, as amended in 1978, made occupational health care a part of the primary health care system. Occupational health care became mandatory in 1979 when a duty was imposed upon employers to arrange preventive occupational health care for all of their employees.

Coupled with the Occupational Health Care Act, the Primary Health Care Act and the Sickness Insurance Act together ensure access to both public and private health care services.

#### *Universal day care for children*

The status of social welfare in the field of social policy changed in the 1960s and 1970s. The decline in agriculture-based society modified the traditional social networks whereby the elderly had been cared for by their children and grandparents cared for their grandchildren. At the same time (in 1970) children were discharged from the legal obligation to provide for their parents. Besides the break-up of the traditional social networks, the need for social services was also increased by the change in family structure, by population movements, and by the increased participation of women in working life. The development of day care was significantly influenced by the 1971 report of the committee on principles in social welfare, which recommended universal access to services on the basis of need instead of the notion of poor relief. Society had to adhere to the service principle in social security policy. As society evolved, certain social situations and problems – including the need for children’s day care – had changed so that the individual was unable to cope with them without support from society. Such social support should then be “available to all individuals and families in obvious need of this support”.

The first social services of this kind came with the reform of children’s day care in 1973. The Children’s Day Care Act separated children’s day care services from general child welfare and redefined them as a basic social service. The emphasis then shifted towards achieving greater equality in family costs and in the conditions for raising children, and towards greater gender equality. Local authorities are responsible for arranging day care,

and must provide this for all children in need of such services. The Primary Health Care Act and the Children's Day Care Act were building blocks for the Finnish welfare state, and established the basis for enlarging the scope of universal public services.

#### *Child home care allowance*

The Child Home Care Allowance Act took effect in 1985 as part of a reform of the care of small children. Child home care allowance is paid to parents with children aged under 3 years who are not in public day care. The child home care allowance gives parents the freedom to decide how to arrange day care for their small children.

Day care for small children was extended in 1990 to guarantee a place in local authority day care to all children aged under 3 years or, alternatively, child home care allowance for the parents of such children. In 1996 the right to day care was extended to cover all children under school age (seven years). With the introduction in 1997 of private day-care allowance in addition to local authority day care and child home care allowance, almost all forms of day care for small children had been covered by public subsidies.

#### *Reform of social welfare*

The 1984 reform of the Social Welfare Act repealed the Public Welfare Act and the Social Administration Act. Social assistance was then replaced by income support. Everyone unable to procure reasonable subsistence by other means was entitled to this benefit. The legislative reform involved a new statutory State subsidy system that improved equality in respect of such subsidies for social welfare and health provision and harmonised the subsidy system. Local authority social administration was linked to the State planning system, and the State directed the establishment and administration of social services. Local authority social welfare functions were defined so that local authorities had a duty to arrange social services, to pay income support and to provide social assistance. This placed all social services on the same footing with respect to the statutory duty to provide services. A change of principle from poor relief to a universal care policy may be detected in the field of social services at this stage.

The Primary Health Care Act, the Children's Day Care Act and the reform of the Public Welfare Act were the building blocks of the Finnish welfare state in the 1970s and 1980s, and they established the basis for the growth of welfare state services.

#### *Informal care allowance*

The 1984 amendment to the Social Welfare Act introduced a new type of social service in the form of a home care allowance intended for elderly people, disabled persons and the chronically ill, for which local authorities can receive State aid. Even though the Act does not require local authorities to pay home care allowances, all of them have implemented it. The name of the home care allowance was changed to the informal care allowance in 1993. Informal care allowance is mainly paid by local authorities to relatives who care for the elderly, the disabled, or the chronically ill.

Child home care allowance and informal care allowance may be considered to represent

a new way of thinking in social security. They combine public and private elements, whereby the public sector contributes to the costs incurred in care, and care work takes place in private, chiefly in individual homes.

## 1.5. The 1990s and social security

The recession in western economies, the breakdown of trade with Eastern Europe (based on bartering of goods and commodities) due to the collapse of the Soviet Union, and the financial and monetary policies pursued at the end of the 1980s drove Finland into its deepest recession of the post-war period at the beginning of the 1990s. Rapidly growing unemployment reduced tax revenues and increased social expenditure, which together with bank subsidies increased the public deficit and borrowing. Financial policy measures were not used to resuscitate the economy to the same extent as in Sweden, because it was feared that this would worsen the deficit in the current account. It was also considered essential to limit the growth in State debt. The public economy was balanced by cutting expenditure and increasing taxation of earned income. Finland joined the European Union in 1995 and the European Economic and Monetary Union (EMU) in 1999.

### *Pension insurance*

The most significant reform of pension provision in the early 1990s was the reform of survivors' pensions on 1 July 1990. This gave widowers the right to a survivors' pension paid from the national and earnings-related pension schemes, whereas previously only widows had been entitled to a survivors' pension. Widowers had previously been entitled to a survivors' pension only from the State and local government pension schemes. The size of the orphan's pension was also increased and the allocation of the surviving spouse's pension was specified.

The cuts in social expenditure due to the recession were also reflected in pension provision. Efforts were made to cut pension expenditure by skipping the periodic index-linked revaluation and raising the age limit for early retirement. A labour market agreement broadened the financial basis for private and public-sector earnings-related pensions, so that employees also began paying earnings-related pension contributions in 1993. From the beginning of 1995 the general retirement age in the State and local government pension schemes was raised from 63 to 65 years and the target level of pensions was reduced from 66 per cent to 60 per cent. These changes applied to future pensions. The State and local government pension schemes were thereby harmonised with the private-sector earnings-related pension scheme.

The cuts in pension provision continued in 1996, and for private and public-sector earnings-related pensions mainly concerned future pensions. The manner of calculating the pensionable wage was changed so that the pensionable wage is determined based on the earnings of the last ten years of employment. A "bent index" was also introduced for earnings-related pensions, whereby the earnings-related pension indices were different for people of working age and people aged over 65.

The cuts in pension provision also affected national pensions. The separate basic amount of the national pension is no longer paid for new pensions beginning after 1995, and the basic amount was abolished completely in 2001 for pensions beginning before 1996. This made the national pension a minimum pension proportional to the earnings-related pension.

### *Sickness insurance*

Due to the recession the reimbursement percentages of earnings-related parental allowances in sickness insurance were lowered several times in the early 1990s, and the waiting period for sickness allowance was extended. Although the reimbursement percentages for earnings-related daily allowances were lowered, the real value of these daily allowances for claimants on low incomes or with no income was maintained by increasing the lowest daily allowances.

The 1996 cuts in social security also affected sickness insurance. The Sickness Insurance Act was amended so that sickness allowance would mainly compensate only for lost earnings. The minimum daily sickness insurance allowance, which had previously been paid to those without earned income, was also abolished. However, people with no earnings could be paid means-tested sickness allowance if the incapacity for work continued for at least 60 days. On the other hand, a minimum daily allowance was maintained for the maternity, paternity and parental allowance, although its level was reduced and index-linking was discontinued.

Besides earnings-based insurance, medical care insurance – and especially reimbursements for medicines – were also reduced: the 90 per cent reimbursement rate was reduced to 75 per cent and a fixed co-payment was introduced for medicines reimbursed at 100 per cent and 75 per cent.

### *Occupational health care*

The recession of the early 1990s led to a cut in reimbursements from sickness insurance for health care expenses from 55 per cent to 50 per cent. The reimbursement system for occupational health care was amended in 1995. The reform sought to reinforce measures to prevent illness and maintain working capacity. Maximum reimbursements were specified for occupational health care and medical care voluntarily arranged by the employer, as well as for other health care. Specialist medical services were restricted and reimbursement of health care for family members was discontinued.

The occupational health care legislation was amended in 2002 to meet the needs of a changing working life and labour force. Under the new legislation, the employer has a duty to arrange and defray the costs of occupational health care to prevent health hazards due to the work and to working conditions, and to protect and improve the safety, working capacity and health of employees.

### *Rehabilitation*

A comprehensive reform of rehabilitation legislation was implemented on 1 October 1991.

The reform sought to clarify roles in the national rehabilitation scheme, and to meet shortfalls in income protection during rehabilitation. A duty to arrange rehabilitation and a co-operation provision imposing a duty on organisations were added to the main acts governing social welfare and health care, the labour administration and insurance schemes. This included a provision in the legislation on national and earnings-related pensions stipulating that before making a pension decision the pension provider must, when necessary, investigate the prospects for rehabilitating the employee.

Income protection during rehabilitation is arranged through the rehabilitation allowance. This benefit is paid to persons of working age between 16 and 64 years if the aim of rehabilitation is continued participation in, return to, or access to working life, and it is not possible to work during the rehabilitation period.

### *Unemployment benefits*

The social security amendment proposals of the spring 1993 labour market agreement affected unemployment benefits. The most important modifications concerned the basic unemployment allowance. An employment requirement of six months and a maximum duration of 500 days were introduced for the basic unemployment allowance, matching the regulations governing the earnings-related unemployment allowance. The basic unemployment allowance is also no longer means-tested.

A new unemployment benefit, the labour market subsidy, was introduced. This is equal to the basic unemployment allowance, but is generally means-tested, meaning that a high spousal income may lead to a lower rate of labour market subsidy. Labour market subsidy was mainly intended for young people entering the labour market for the first time. This referred to individuals who had not previously been in work and who were increasingly remaining unemployed (e.g. students and graduates of vocational and academic educational institutions).

In the budget negotiations in 1996 the government sought to save FIM 2bn in unemployment security during 1997. Besides public expenditure savings, the government sought to revise the unemployment benefit scheme so that it would increasingly encourage the unemployed to enter the labour market and accept short-term work.

At the beginning of 1997 the employment requirement for the unemployment benefit was extended from 6 to 10 months, the waiting period for initial benefit entitlement became 7 days, the manner of wage payment used in reckoning the earnings-related unemployment benefit was modified, and the 55 year age limit on entitlement to extended unemployment benefit was increased to 57 years. The labour market subsidy system was also modified. The restriction dating from 1996 on entitlement to labour market subsidy for claimants under 20 years of age was extended to everyone aged under 25. To encourage claimants to seek employment, a less severe means-test was applied to supporting spouses, but stricter means-testing was introduced for single persons.

### *Health and social services*

Besides the recession of the early 1990s, health and social services were also affected by

the 1993 reform of central government transfers to local government in social welfare and health care. The financial support method used for local authority health and social services was changed from expenditure-based central government transfers to formula-based block grants. The financial capacity classification of local authorities was abolished and the system of statutory guidance gave way to information guidance. This reform emphasised local authority liability, and the share of the State in financing services was clearly reduced after 1993, just as local authorities were assuming liability for an increasing share of health and social services.

Due to the recession, the proportion of social welfare expenditure on services for the elderly and the disabled, health services and social services for families with children decreased in the early 1990s, but it began to rise again at the end of this decade. While the economic crisis does not seem to have changed the relation between income transfers and services, an increasing emphasis on services was visible in family policy expenditure by the end of the 1990s. Thus the recession did not shift the emphasis of the Finnish welfare state away from services and towards income transfers, otherwise than by increasing unemployment benefit expenditure.

The payment share of health care clients grew during the recession years. This increase was slightly larger in medical care than in other health services. Including the increase in the deductible for expenditures on prescription medicines that are reimbursed from sickness insurance and for the costs of examinations and treatment, the per capita medical costs paid by individuals increased by about one fifth over the period 1987–1996. The tax deductibility of medical expenses was abolished in 1992.

The State subsidy to local authorities for health and social services fell significantly during the recession. The cuts in specialised medical care have mainly affected institutional psychiatric care. The reduction in long-term medical care for the elderly has been considerable. It would seem that due to the recession future geriatric care services will fall below the level planned in the 1980s.

Children's day care was expanded during the recession and afterwards. A shift of emphasis towards full-time day care at the expense of part-time day care and family day care can be discerned. This has been interpreted as a change towards arrangements whereby day care becomes a preliminary stage for the school system.

### *Summary*

Despite cuts in social security in the 1990s, its basic structure remained almost unchanged.

The repeal of the provisions of the Parliament Act concerning the postponement of legislative proposals and the associated reinforcement of majority parliamentarism have facilitated adjustment of the social security system. Majority governments have been able to implement reforms more quickly. The 1995 amendment to the Parliament Act was accompanied by a reform of fundamental rights whereby individual basic social rights were written into the Constitution Act and subsequently, in 2000, into the new Finnish Constitution.

The cuts caused by the recession have made Finnish social insurance increasingly em-

ployment and earnings-based, whereas income and means-testing are stressed in minimum social welfare provision. In the field of health and social services and with respect to the changes in medical care and child care services, the status of the most highly professional arm of this sector – emergency medical care and day care – has been reinforced. On the other hand, less highly professional care services have had to adjust to the pressures of the economic recession. Geriatric care services in particular have been reduced in both scope and content.

During the recession of the 1990s in the Nordic countries Sweden and Finland transferred responsibility for care, especially geriatric care, from the health care to the social services sector without increasing public residential care. Denmark, by contrast, managed to maintain broader entitlement to services even as the overall role of residential care increased. Finland and Sweden have significantly reduced the share of public financing in health care, whereas Denmark and Norway have maintained public financing at the previous level. Compared to the development in the service scheme for the elderly, it may be noted that the extension of children's day care also continued throughout the recession of the 1990s in both Sweden and Finland. The Nordic countries are moving in a direction whereby children's day care is securing the same rights as basic education for children.

## 2. Income protection

### 2.1. Pension insurance

Finnish pension insurance mainly comprises two statutory pension schemes: national pension insurance and earnings-related pension insurance. Together these schemes guarantee pension provision for residents of Finland in the event of old age, incapacity for work, long-term unemployment, or death of the family breadwinner. In addition to these two schemes, voluntary pension insurance is also available.

At the end of 2002 there were 1,317,300 pension recipients, which is about 24 per cent of the population. 54 per cent of all pension recipients received some national pension and less than 8 per cent received a full national pension in 2002. Old-age pensions were paid to 889,600 recipients (16 per cent of the population) and disability pensions were paid to 267,200 persons (7 per cent of those aged 16–64). The average overall pension for recipients of an old-age, disability or unemployment pension was EUR 1,040 per month (2002). The average size of old-age pensions increases continually, as the earnings-related pensions of new old-age pensioners are higher than those previously granted and terminated.

#### 2.1.1. The earnings-related pension scheme

The earnings-related pension seeks to safeguard the previously achieved level of consumption following retirement. The size of the earnings-related pension is affected by the length of the individual's working history and the earnings from work. The earnings-related pensions are divided into the private-sector and public-sector pension schemes. The earnings-related pension scheme includes old-age, disability, unemployment and survivors' pensions. Earnings-related pensions also include part-time pensions.

The earnings-related pension accrues from pensionable employment contracts and periods of self-employment between the ages 23 and 64 years. The retirement age under the earnings-related pension scheme is 65 years and the annual accrual rate is 1.5 per cent. The annual accrual rate for an employee who continues working is 2.5 per cent from the beginning of the year when the employee attains the age of 60. The full pension – 60 per cent of the wage – accumulates over a period of 40 years. The pensionable wage is calculated separately for each employment contract on the basis of the earnings for no longer than the ten last years of each employment contract. Pensions are usually revalued annually in line with the earnings-related pension index. This index is determined separately for persons of working age and persons aged over 65. The earnings-related pension index for people of working age is equally influenced by changes in wages and prices. The earnings-related pension index for people who have reached retirement age is influenced to 80 per cent by changes in the cost of living and to 20 per cent by changes in the wage level.<sup>2</sup>

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<sup>2</sup> This is the prevailing situation until the end of 2004.

The earnings-related pension scheme comprises several private and public-sector schemes. They are governed by the following pension acts: the Employees' Pensions Act (TEL), the Temporary Employees' Pensions Act (LEL), the Seamen's Pensions Act (MEL), the Self-employed Persons' Pensions Act (YEL), the Farmers' Pensions Act (MYEL), the Pensions Act for Performing Artists and Certain Groups of Employees (TaEL), the State Employees' Pensions Act (VEL), the Local Government Employees' Pensions Act (KVTEL) (from 1 August 2003, the Local Government Pensions Act – KuEL) and the Evangelical-Lutheran Church Pensions Act (KiEL). The earnings-related pensions also include pensions from the “old scheme” paid by the State and local authorities, and the pensions paid by certain public institutions.

Almost all private and public-sector earnings-related pension schemes are governed by the principle of partial funding.

Administration of the earnings-related pension scheme is decentralised. Administration of the scheme in the private sector is mainly the responsibility of private pension insurance companies, industry-wide and company pension funds, while in the public sector the main administrators are the State Treasury and the Local Government Pensions Institution. The Finnish Centre for Pensions serves as the central agency for private-sector pension providers.

When Finland joined the European Union in 1995 the Finnish statutory earnings-related pensions were considered public pension schemes, regardless of their organisational model.

### **2.1.2. The earnings-related pension reform**

On 12 November 2001 the principal labour market organisations agreed on the development of private-sector earnings-related pensions. The agreement seeks to postpone the effective retirement age by 2–3 years, to adapt the pension scheme to an increasing average life expectancy, and to pave the way for unification and simplification of the private-sector earnings-related pension scheme.

The reform included issues requiring further negotiation and preparation. These included, in particular, the calculation rule for the pension and the adjustment of the pension scheme to increasing longevity. On 5 September 2002 the organisations concluded a supplementary agreement resolving these issues. On 1 November 2002 the Council of State submitted a bill to Parliament in line with the agreement, and the bill was enacted in February 2003. These reforms will also be implemented in the public-sector earnings-related pension schemes, but in a manner that allows for the special features of these pension schemes.

The changes will mainly take effect from the beginning of 2005.

#### *The main contents of the private-sector earnings-related pension reform*

The age span for accrual of an earnings-related pension will be broadened so that the pension accrues on wages earned between the ages of 18 and 68. Retirement on an old-age pension will be flexible between the ages of 62 and 68. An old-age pension amounting

to the accrued pension may be paid from the age of 63.

An early old-age pension, with an abatement for early retirement of 7.2 per cent per year, may be taken at the age of 62. If the old-age pension is postponed beyond the age of 68, then it will be increased by 4.8 per cent for each year of postponement.

A pension will accrue at a rate of 1.5 per cent of the annual wage between the ages of 18 and 52. For persons aged between 52 and 63 years the accrual rate will be 1.9 per cent. If a person continues working between the ages of 63 and 68 and does not retire, then the pension will accrue at an accelerated annual rate of 4.5 per cent.

From the age of 53 the employees' pension contribution will be about 30 per cent higher than for persons aged under 53.

At the end of 2004 a vested pension will be formed from the employment relationships that began before 2005 according to the current calculation rules. A vested pension means that the pension rights accrued from the employment contract up to the end of 2004 will be calculated as if the employment contract had ended then. The value of the pension rights will be revalued annually with a wage coefficient until the insured person retires and the pension becomes payable.

From 2005 the earnings for each year and the vested pensions from employment contracts which have already ended will be revalued for pension calculation purposes to the level of the year of the start of the pension in line with a wage coefficient, where the weighting of the earnings level index is 80 per cent and that of the consumer price index 20 per cent.

The agreement includes a protective rule for persons retiring before 2012 from an employment relationship that began before 2005. In such cases the pension will be calculated according to both the old and the new rules. If the pension under the old rules would be higher, then the difference will be added to the pension reckoned under the new rules.

A life expectancy coefficient is used to allow for the impact of changes in life expectancy on the size of pensions and on pension expenditure. As each age group reaches the age of 62 years the statistical change since 2009 in the average remaining lifetime at this age will be reckoned. The life expectancy coefficient will be used to adjust the pension level of the said age group downwards in proportion to the increase in life expectancy. The life expectancy coefficient will be specific for each age group and will not depend on the effective retirement age of the insured person. This means that during their lifetimes the members of each age group will on average receive a pension of similar size and increasing life expectancy will not cause additional costs. The life expectancy coefficient will influence pensions for the first time in 2010.

Funding of old-age pensions will be increased as of 2003 so that by 2013 the additional funding will reach 7.5 per cent of the insured wage sum.

The individual early retirement pension and the unemployment pension will be abolished. The benefits granted as of 2005 will be old-age, disability, part-time and survivors' pensions. Continuation of working life will also be supported by improving rehabilitation within the earnings-related pension scheme. From the beginning of 2004 a statutory right to vocational rehabilitation in the earnings-related pension scheme will be implemented

when it can be predicted that the employee is at risk of incapacity for work due to future illness or injury. Rehabilitation will also be made more effective by other statutory measures.

The pensionable wage for the pension component for the projected pensionable service in disability pensions will be the average wage for the five years preceding the pension contingency (revalued to the level of the year of the pension contingency in line with the wage coefficient). The calculation period will be shorter for persons who are incapacitated before the age of 23.

All currently paid earnings-related pensions will be revalued in line with the current earnings-related pension index for persons aged over 65, with an 80 per cent weighting for changes in the consumer price index and a 20 per cent weighting for changes in the earnings level index. The size of the disability pension will be increased when the pension has lasted for five years to ensure the pension level for incapacitated young persons. The annual accrual rate for the projected pensionable service in disability pensions will be 1.3 per cent between the ages of 50 and 63 years.

For persons born in 1944 or later the individual early retirement pension will be replaced by entitlement to an old-age pension amounting to the accrued pension at the age of 63 with no requirement of incapacity for work. At the same time assessment of entitlement to a disability pension for persons aged over 60 will emphasise the occupational character of the incapacity in cases where the person has a long working history and the wear and strain caused by the work, combined with factors related to ageing, make it unreasonable to expect continued participation in working life.

Persons born in 1946 or earlier will be able to take a part-time pension at the age of 56 or later on present terms. The criteria for a part-time pension for persons born in 1947 or later will be changed so that the age limit becomes 58 years, and the old-age pension will accrue on the part-time pension at only half of the present rate.

The rehabilitation reform, the changes to the part-time pension and the abolition of the individual early retirement pension will be implemented from the beginning of 2004.

The unemployment pension will be abolished. The entitlement to an unemployment pension of claimants whose right to continued unemployment allowance begins after 1 January 2007 will be replaced by stipulating a right to continued unemployment benefit. The lower age limit for the "unemployment path to retirement" will increase from 55 to 57 years. This reform concerns persons born in 1950 or later.

From the beginning of 2005 an old-age pension will begin to accrue from certain unsalaried periods during which the employee is paid earnings-related daily allowances. Such periods are maternity, paternity and parental leave, periods of unemployment and job alternation leave, and various periods of training, rehabilitation and illness. Pension will accrue for unsalaried periods at a rate of 1.5 per cent of the earnings taken as the basis for the calculation.

### **2.1.3. The national pension scheme**

Persons resident in Finland are entitled to a national pension. A Finnish citizen is entitled to a national pension after living in Finland for no less than three years after reaching the age of 16 years. A foreigner can be granted a pension on living in Finland for the previous five years. The national pension guarantees minimum subsistence for pension recipients with no other pension income or with only a small earnings-related pension.

The benefits paid from the national pension scheme are old-age, disability and unemployment pensions. Since 1997 it has been possible to pay only pensioners' housing allowance, pensioners' care allowance or front veterans' supplement, and as of 2001 an increase for a child has also been payable, provided that the person receives some statutory pension other than a national pension.

The retirement age in the national pension scheme is 65 years, and an early old-age pension can be granted to claimants aged between 60 and 64 years. A disability pension is granted as such to persons aged between 16 and 64 years, and as an individual early retirement pension to persons aged between 60 and 64 years. An unemployment pension is granted to long-term unemployed persons aged between 60 and 64 years.

The national pension is proportional to the earnings-related pension, i.e. its size is determined according to the earnings-related and civil servants' pensions and to other compensation comparable to pensions. If the monthly earnings-related pension in 2003 is at least EUR 857–1,011, then no national pension is payable. The full monthly national pension was EUR 417–493 in 2003.

Provided that the beneficiary lives in Finland, a national survivors' pension is paid to a surviving spouse aged under 65 years and to orphans. A surviving spouse's pension is payable if the spouse dies and an orphan's pension is payable if the parent or other guardian dies. The pension may include a basic and an additional component, and the surviving spouse's pension may also include a housing allowance. Payment of both the national pension and the national survivors' pension is administered by the Social Insurance Institution (Kela).

Pensioners' housing allowance and pensioners' care allowance are included in the national pension scheme, but these are discussed separately in the sections on housing allowance and benefits for the disabled.

National pension scheme benefits are linked to a national pension index determined according to the cost-of-living index.

### **2.1.4. Impact of the earnings-related pension reform on the national pension scheme**

The reform of the private-sector earnings-related pension scheme in 2005 will also affect national pensions. Additional accrual on the earnings-related pension will not reduce the size of the national pension, i.e. earnings-related pension accruing after the age of 63 will not affect the national pension. Pension accrual for unsalaried periods (periods of study and childcare) under the reform of private-sector earnings-related pensions will also not reduce the size of the national pension. However, the retirement age under the national

pension scheme will continue to be 65 years. This means that the national pension will include a right to a disability benefit for persons aged 63–64 years and entitlement to an unemployment pension for persons born in 1949 or earlier.

## 2.2. Income insurance under the sickness insurance scheme

Everyone living in Finland is covered by statutory sickness insurance. Sickness insurance is administered by the Social Insurance Institution (Kela). Voluntary sickness insurance may also be arranged.

Daily sickness allowance is paid to compensate for loss of working capacity. Persons aged between 16 and 64<sup>3</sup> years who are unfit for their normal work or for alternative closely comparable work due to illness are entitled to sickness allowance. The amount of sickness allowance payable depends on the earned income. Persons without income are paid the minimum sickness allowance of EUR 11 per working day (2003). Persons in the low and middle-income brackets receive a daily allowance of 70 per cent of earnings. Sickness insurance is paid for no longer than 300 days, beginning after a waiting period including the day when the claimant falls ill and 9 working days for the earnings-related daily allowance or 55 calendar days for the minimum daily allowance. Sickness allowance takes precedence over disability pensions payable under earnings-related pension legislation, and the pension is paid only after the period of daily allowance has ended. On the other hand, sickness allowance is secondary with respect to compensation from accident and motor liability insurance, and to rehabilitation allowance and compensation for loss of income during rehabilitation.

Maternity, paternity and parental allowances are paid on the basis of pregnancy, childbirth and childcare. Maternity allowance is paid to expectant mothers for the first 105 working days, after which it becomes parental allowance payable for 158 working days to either the mother or the father. A father living in Finland is entitled to a paternity allowance payable for a maximum of 18 working days, i.e. for 6–12 working days during the mother's period of maternity allowance and an additional 6 working days during the mother's period of maternity or parental allowance. If several children have been born, then the period of parental allowance is extended by 60 working days for each child, starting from the second child.

The average monthly sickness allowance in 2002 was EUR 1,028 and the monthly maternity and parental allowance was EUR 870.

Parental benefits are determined in the same way as the sickness allowance.

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<sup>3</sup> The reform of the earnings-related pension scheme will increase the upper age limit for sickness allowance from 65 to 68 years from the beginning of 2005.

## 2.3. Unemployment benefits

Subsistence for the unemployed is mainly ensured through unemployment allowance, labour market subsidy and unemployment pension. Unemployment allowance may be paid as an earnings-related allowance or a basic allowance. Basic unemployment allowance and labour market subsidy are administered by the Social Insurance Institution (Kela), while unemployment funds administer the earnings-related unemployment allowance.

### 2.3.1. Basic security for the unemployed

Basic security for the unemployed comprises basic unemployment allowance and labour market subsidy.

#### *Basic unemployment allowance*

The basic unemployment allowance covers everyone residing in Finland, including citizens of Member States of the European Union or European Economic Area working in Finland. Basic unemployment allowance is payable to persons aged between 17 and 64 years who are registered as full-time job-seekers at the local employment office and who meet the employment criteria. The claimant must also be fit for work and available in the labour market.

After a waiting period of 7 days, basic unemployment allowance is payable for 5 working days weekly for a maximum of 500 days of unemployment to unemployed job-seekers who are not members of an unemployment fund and who continue to meet the employment criteria. An unemployed person who has reached the age of 57 before the end of the maximum payment period is paid basic unemployment allowance until the age of 60 (right to continued unemployment allowance). Such claimants then become eligible for an unemployment pension.

Basic unemployment allowance is paid for a maximum of 5 days per week, and amounted to no more than EUR 495 monthly in 2003. The basic unemployment allowance is means-tested and is reduced by income from work and by certain social security benefits. A child supplement of EUR 94–178 per month may be added to the basic unemployment allowance.

#### *Labour market subsidy*

Labour market subsidy ensures subsistence and improves the claimant's prospects of returning to the labour market through employment policy measures. Labour market subsidy is payable to unemployed persons who have already received basic unemployment allowance or earnings-related unemployment allowance for the maximum period of 500 days, or who are not entitled to unemployment allowance.

Labour market subsidy may be granted to an unemployed person aged 17–64 years, who is registered as a full-time job-seeker at the local employment office, is fit for work and is available in the labour market. Labour market subsidy is paid after a waiting period of 5 days. The waiting period is 5 months for claimants entering the labour market for the

first time. No new waiting period is required for the transfer from unemployment allowance to labour market subsidy if the person has been unemployed without interruption on transferring directly to labour market subsidy after receiving unemployment allowance for the maximum period.

The full labour market subsidy is of the same size as basic unemployment allowance, and also includes a supplement for a child. Unlike basic unemployment allowance, labour market subsidy is means-tested and, with the exception of certain social security benefits, is reduced by almost all individual and spousal earnings (including common-law spouses).

187,100 claimants were receiving basic unemployment security (basic unemployment allowance and labour market subsidy) in Finland at the end of 2002 at an average monthly payment rate of EUR 507.

The basic unemployment allowance (basic component of earnings-based security) and the labour market subsidy are taxable and are revalued in line with the change in the national pension index.

### **2.3.2. Earnings-based security for the unemployed**

Earnings-related unemployment allowance may be granted to an unemployed member of an unemployment fund who meets the criteria of fund membership and time spent in employment. After a waiting period of 7 working days unemployment allowance is paid for 5 working days per week.

The size of the earnings-related unemployment allowance depends on the claimant's previous earnings. The daily allowance comprises a basic component equal to the basic unemployment allowance, and an earnings-related component. Child supplements are the same as for the basic unemployment allowance. The earnings-related component is 45 per cent of the difference between the previous daily wage and the basic component, but must at least equal the basic component.

Earnings-related unemployment allowance is paid for a maximum of 500 days. Unemployment allowance may also be paid until the age of 60 to an unemployed person who has reached the age of 57 before the maximum period of 500 days has ended. If unemployment continues after the earnings-related unemployment allowance has ended, then the unemployed person is eligible for labour market subsidy (right to continued unemployment security).

136,200 claimants were receiving an average of EUR 920 per month in earnings-related unemployment allowance at the end of 2002.

Earnings-related unemployment allowance is taxable income.

### **2.3.3. Reform of unemployment security**

The November 2001 agreement of labour market organisations on the evolution of private-sector earnings-related pensions was accompanied by an agreement to reform the unemployment security scheme. The reform took effect on 1 January 2003, and mainly modified the size and duration of the unemployment allowance and the details of the employment condition.

The severance pay of an unemployed person was linked to unemployment security so that the earnings-related unemployment allowance is increased for 130 days by a severance pay increment for a person who has been made redundant, and who has a working history of at least 20 years.

The age limit for entitlement to continued unemployment allowance was increased from 57 to 59 years. A further requirement for continued unemployment allowance is that the person has a working history of at least 5 years during the past 15 years when the maximum period of 500 days ends. The level of the unemployment allowance paid for the period of continued unemployment allowance was increased to approach the level of pension provision. The proposed amendment concerning days of continued unemployment allowance will thereby supplant the unemployment pension.

The employment condition for receiving unemployment allowance remained at 10 months, but the tracking period for meeting this condition was increased from 24 months to 28 months.

An unemployment pension will continue to be paid to persons born in 1949 or earlier. The right to continued unemployment allowance replaces the unemployment pension for persons whose right to continued unemployment allowance starts after 1 January 2007, i.e. for persons born in 1950 or later. These changes took effect on 1 January 2003.

## 2.4. Workers' compensation insurance

Statutory workers' compensation insurance covers all employees and self-employed farmers in Finland. The insurance covers accidents at work, on the journey between home and work, and when attending to the employer's business, as well as the costs of occupational diseases. Self-employed farmers are compensated for accidents in agricultural work or in circumstances due to such work. Workers' compensation insurance is financed for employees by the employers and for self-employed farmers by these farmers and by the State.

The insured are reimbursed for medical care expenses due to illness or accident. Loss of earnings is also compensated through a daily allowance, workers' compensation pension or survivors' pension. The compensation for loss of income is earnings-linked so that the workers' compensation pension paid to a wholly incapacitated employee is 85 per cent of annual earnings, falling to 70 per cent when the employee reaches the age of 65. Otherwise the level of the compensation depends on the degree of disability or incapacity for work.

Workers' compensation pensions and daily allowances are taxable income. Workers' compensation insurance is administered by private insurance companies, and insurance for certain groups of employees is also administered by pension providers. Traffic accidents and military injuries are covered by separate special legislation. Benefits from accident and motor liability insurance take precedence over other social security benefits. A beneficiary of accident and motor liability insurance may also be entitled to other social security benefits, such as sickness allowance, earnings-related pension or national pension. These

other social security benefits are paid only if they exceed the benefit payable from accident and motor liability insurance.

Statutory provision may be supplemented by voluntary workers' compensation insurance.

## 2.5. Maternity grant and family allowance

A maternity grant may be paid to a woman residing in Finland and family allowance is paid for a child living in Finland. The Social Insurance Institution (Kela) administers both of these benefits.

### 2.5.1. Maternity grant

The maternity grant seeks to promote the health of the mother and the child. A woman whose pregnancy has lasted for 154 days and who has had a medical examination before the end of the fourth month of pregnancy is entitled to a maternity grant. A maternity grant may also be paid for an adopted child aged under 1 year. The maternity grant was increased as of 1 March 2003 for families in which several children are born at the same time or which adopt several children at the same time.

The maternity grant is paid in cash or in the form of a maternity package containing childcare items. The size of the cash benefit in 2003 was EUR 140. An adoption grant of EUR 1,900–4,500 (in 2003) is also paid to cover the costs of international adoptions.

### 2.5.2. Family allowance

Family allowance is paid for the maintenance of children aged under 17 years. The size of the allowance depends on the number of children in the family. Monthly family allowances in 2003 are EUR 90 for the first child and EUR 110.50 for the second child. Single parents are also paid a monthly family allowance supplement of EUR 33.60 per child.

## 2.6. Housing allowance

Accommodation is supported through various allowances that reduce the costs of housing: general housing allowance, housing allowance for pensioners and the housing supplement for students. The conscript's allowance may also include a housing allowance. Reimbursement for accommodation costs is paid to persons participating in labour market training. These benefits are administered by the Social Insurance Institution (Kela).

Housing allowances are means-tested benefits, and as reimbursements for costs incurred they are not taxable.

### *General housing allowance*

Housing allowance is intended to ease the housing costs of persons on low incomes. The

allowance is granted per household. Persons living permanently in the same dwelling are deemed to live in the same household. The household may include only persons living in Finland.

Housing allowance may be paid to persons living in rented, right-of-occupancy or owner-occupied dwellings. The allowance is 80 per cent of the reasonable housing costs exceeding the size of the household's basic deductible. Housing costs include rent, monthly maintenance charges and separately payable heating and water charges, as well as the costs of maintaining a detached house.

#### *Housing allowance for pensioners*

Housing allowance for pensioners may be paid to persons resident in Finland who are aged over 65 years or who are aged 16–64 years and receive a national pension or a survivors' pension from the Social Insurance Institution (Kela) or a full disability, unemployment or individual early retirement pension from an authorised pension provider. Housing allowance may also be granted to a person receiving compensation for full disability on the basis of an accident at work, a traffic accident or a military injury.

The housing allowance is 85 per cent of the reasonable housing costs exceeding deductibles.

#### *Housing supplement for students*

Housing supplement covers all students living in a rented or right-of-occupancy dwelling, excepting families with children. Students may receive a housing supplement for a dwelling rented for the purpose of studies and located in a district other than that of the family's permanent dwelling. Housing supplement is granted to persons studying abroad on the same grounds as to persons studying in Finland.

It amounts to 80 per cent of the monthly rent or maintenance charge, but may not exceed EUR 172 per month (2003). Housing allowance is determined individually and is means-tested.

## **2.7. Financial aid for students**

Student financial aid seeks to ensure subsistence during periods of study. They are administered by the Social Insurance Institution (Kela).

Financial aid for students for studies pursued in Finland may be paid to a Finnish citizen, to an employee from the European Union or European Economic Area, and to the spouse and dependent children thereof. Citizens of countries other than Finland are eligible if the claimant has lived in Finland for at least two years for a purpose other than studies and the residence in Finland can be considered permanent.

Student financial aid is paid for studies after comprehensive school level, i.e. upper secondary school studies, vocational basic and supplementary education, and higher education degree studies. The aid is usually paid for 55 months.

Student financial aid comprises a study grant, housing supplement and student loans guaranteed by the State, together with student meal subsidies, travel subsidies for journeys to and from school, and loan interest assistance. The size of the study grant depends on the student's age, housing and family situation, educational institution and economic circumstances. The study grant is means-tested and constitutes taxable income.

## 2.8. Conscript's allowance

The conscript's allowance seeks to ensure subsistence of the conscript's family members during the period of military service. The individual conscript may be reimbursed for the costs of a dwelling at his disposal. The conscript's allowance is administered by the Social Insurance Institution (Kela).

Eligibility for conscript's allowance requires that the military service has reduced the conscript's ability to earn a living and that he is in need of assistance. Family members entitled to the allowance are the spouse, a common-law spouse with whom the conscript has a mutual child aged under 18, and the conscript's own child or the spouse's child aged under 18.

The conscript's allowance may include a basic allowance, a housing allowance and a special allowance. The full basic allowance is equal to a full national pension.

The conscript's allowance is not taxable.

## 2.9. Special assistance for immigrants

Special assistance for immigrants began to be paid as of 1 October 2003. This benefit ensures subsistence in old age and disability for immigrants living in Finland who would otherwise be in sustained need of local authority income support. Eligibility for the benefit requires that the claimant is at least 65 years of age or is unfit for work. The beneficiary must also have lived in Finland without interruption for at least five years before payment of the benefit begins. The special assistance may not exceed the full national pension. It is a means-tested benefit, and its size depends on the income of both the claimant and the claimant's spouse, and on their property. The special assistance is administered by the Social Insurance Institution (Kela). It is not taxable and is paid from State funds.

## 2.10. Local authority income support

Income support is an income protection form of last resort, which supplements other forms of income protection. It is a means-tested benefit temporarily granted and paid by the local authority social administration in order to ensure the subsistence of the claimant and the claimant's family, and to promote the ability of the individual to cope independently.

The basic component of local authority income support amounts to approximately 76 per cent of the full national pension. The basic component for a single person in 2003 was a maximum of EUR 375 per month in the first category of local authority districts. Anyone whose own income and wealth and that of his or her family are insufficient to meet subsistence needs is entitled to income support. Finnish citizenship is not a condition of eligibility for this benefit. Outlays affording entitlement to income support include a basic component and costs allowed for separately (the additional component). Compensation may also be paid for housing and health care costs and for other expenses. The basic component is intended to cover the costs of food and clothing, and minor health care outlays.

Unemployment, housing costs and low incomes are the most important reasons for claiming income support. Unemployed claimants account for about half of all households receiving income support.

## 3. Health-related social security

Finnish health care seeks to ensure health and medical care services for all members of the public regardless of place of residence or economic situation. The services are based on public-sector (State and local government) health care services financed from tax revenues. These are supplemented by private health and medical care supported by the Social Insurance Institution (Kela). There is also a certain amount of private medical care insurance.

The overall costs of health and medical care accounted for a rising share of GDP during the 1970s and 1980s. However, this share fell slightly in the 1990s, and by 2000 was some way below the average for the OECD countries. The overall costs of health care in 2001 were EUR 9.5 billion, which was 27 per cent of social expenditure.

### 3.1. Health services

Local authority health and care services based on the Primary Health Care Act seek to equalise the provision of primary health care services throughout the country.

The evolution of health and medical care reduced differentials in the use of health services between people in different income brackets since the 1960s. Since the mid-1970s non-institutional services have grown more rapidly than hospital services. However, by international standards the basis for Finnish health and medical care continues to lie in hospital and other institutional care. Even though the emphasis during the recession of the 1990s was on promoting non-institutional care, almost half of all health and medical care expenses continue to be incurred in maintaining hospital wards.

Finns visit the doctor on average four times a year. Most of these visits in non-institutional care occur in the public sector, as health centres account for about half of them and hospital outpatient wards for one fifth. The public sector increased its share during the 1990s.

Beside the local authority health services, there are also private-sector services such as private medical centres, hospitals, laboratories and physical therapy centres.

Most private-sector health services are in southern Finland, especially in large cities, and slightly more than half of them provide physician or dental services. The private sector mainly offers specialist services, and its significance is also considerable in occupational health care. There are users of private physician services throughout the country. 28 per cent of the population are reimbursed for private physician services each year.

## 3.2. Medical care insurance within the national sickness insurance scheme

Medical care insurance covers the costs of medicines and medical transportation irrespective of the sector in which they are incurred. Sickness insurance covers the use of private services through reimbursement for medical examinations and treatment, as well as physician and dental surgeon fees.

The purpose of sickness insurance as administered by the Social Insurance Institution (Kela) is to reduce financial obstacles to the necessary use of health care services and to improve the social security of those who fall ill.

Sickness insurance applies the coinsurance principle whereby the insurance scheme pays a certain percentage of the costs based on a fixed scale of charges and the insured person pays the rest. Sickness insurance reimburses part of the fees of private physicians. In 2003 doctor's fees were reimbursed at a rate of 60 per cent of the fixed rate according to a specified scale of charges.

Sickness insurance reimburses the costs of examination and treatment prescribed by a private physician at 75 per cent of the fixed rate according to a specified scale of charges insofar as the said costs exceed a certain co-payment. Medicines prescribed by a physician are reimbursed through a basic reimbursement for the amount exceeding a certain co-payment. The basic reimbursement is 50 per cent of the costs exceeding a co-payment of EUR 10. The special reimbursements are 75 per cent and 100 per cent of costs exceeding a co-payment of EUR 5. A special reimbursement applies to medicines prescribed for severe and chronic illness. If the cost of medicines that is not reimbursed exceeds EUR 601 (2003) during a calendar year, then the said excess is reimbursed in full.

Reimbursements for travel costs seek to equilibrate regional differences. Sickness insurance reimburses the costs of travel by taxi, aeroplane, helicopter or other means of transport. The guiding principle is for the journey to be made using the cheapest mode of transport. Expenses are reimbursed in full insofar as the costs of the journey in one direction exceed EUR 9.25 and if annual travel costs exceed EUR 157. The travel costs of any escort needed for the journey are also reimbursed.

Sickness insurance also reimburses the costs of dental care. On 1 December 2002 dental care insurance was extended to cover the entire population. Examination and treatment by a dental surgeon are reimbursed at 60 per cent of the rate according to a fixed scale of charges. Reimbursements are also paid for laboratory and x-ray examinations pertaining to dental care and for travel and medicines.

## 3.3. Occupational health care

Occupational health care is implemented pursuant to the Occupational Health Care Act. This form of health care accounts for 13 per cent of all visits to a physician in non-institutional care. Under the Occupational Health Care Act, an employer, self-employed

person or other independent worker is entitled to reimbursement for the costs of arranging occupational health care and other health care. The purpose of occupational health care is to promote preventive measures and measures to maintain working and functional capacity.

An employer is entitled to reimbursement from the Social Insurance Institution (Kela) for the costs of arranging occupational health care. If the employer has arranged medical care and other health care for employees, then the employer is entitled to reimbursement for the costs so incurred. These services must be provided to the employees free of charge. The Social Insurance Institution (Kela) reimburses 50 per cent of approved costs. Under an interim amendment to the Sickness Insurance Act that took effect in 2002, an employer is reimbursed for 60 per cent of the costs of workplace visits made by occupational health care professionals and by any experts that the said professionals may require. This amendment seeks to increase occupational health care measures at workplaces with a view to developing work, a working environment and a workplace community that are healthy and safe.

Self-employed persons and others who work independently are entitled to reimbursement for the costs of their own occupational health care. Procurement of occupational health care services is voluntary. The reimbursement is paid to the health centre that provides the occupational health service or to the individual self-employed person when the services have been procured from a private provider of occupational health care services. The Social Insurance Institution (Kela) reimburses 50 per cent of the costs of occupational health care up to an entrepreneur-specific maximum to self-employed persons and others working independently.

The Social Insurance Institution (Kela) also reimburses the Finnish Student Health Service for arranging health care for students at universities and colleges.

Occupational health care covers 80 per cent of employees (1.6 million persons), about 30 per cent of farmers and 20 per cent of other entrepreneurs working independently. This coverage is good by international standards. The coverage of occupational health care is lowest in building construction, transport, people working independently, and in agriculture and small enterprises. The costs of occupational health care in 2000 amounted to EUR 291 million, of which EUR 129 million was paid to employers.

### 3.4. Rehabilitation

Rehabilitation seeks to promote the ability of persons with disabilities or diminished working capacity to cope with their work, and to support their reintegration into work, social functions and independence. Many different lines of business and many different professions are currently involved in rehabilitation, which is systematic and based on co-operation between various schemes. Rehabilitation is arranged by the local authority health and social administration, the Social Insurance Institution (Kela), the employment and education authorities and the pension providers.

From the beginning of 2004 employees will have a statutory right to vocational rehabilitation when it can be predicted that they are at risk of becoming unfit for work due to future illness or handicap.

### **3.4.1. Rehabilitation arranged by the Social Insurance Institution (Kela)**

The Social Insurance Institution (Kela) has a duty to arrange rehabilitation based on estimated appropriations in the form of vocational rehabilitation for people with diminished working capacity and medical rehabilitation for the severely disabled. The Social Insurance Institution (Kela) also arranges other vocational and medical rehabilitation. It is under no obligation to arrange rehabilitation if the person is entitled to rehabilitation under the Workers' Compensation Insurance Act, the Motor Liability Insurance Act or legislation on military injuries. Where necessary, the Social Insurance Institution (Kela) must investigate the need for rehabilitation when a claimant receives sickness allowance for longer than 60 days.

A person with diminished working capacity may receive vocational training or counselling to maintain and improve working capacity, support for engaging in a trade or profession, and basic education necessary for vocational training. The necessary aids for work or study will also be procured for severely disabled persons. Vocational rehabilitation measures for persons with diminished working capacity include investigations to determine the needs and prospects for rehabilitation, work and training trials, training to maintain and improve working capacity, counselling at a work clinic, and basic, continued and supplementary training. Other activities include counselling based on the rehabilitation needs of elderly employees.

Medical rehabilitation for severely disabled persons may comprise long-term or demanding periods of non-institutional or institutional rehabilitation where these do not involve direct medical care and are necessary in order to maintain and improve the working capacity and functional capacity of the person in question. A further requirement is that the rehabilitee is not in public institutional care.

The Social Insurance Institution (Kela) may also arrange and reimburse the costs of rehabilitation measures other than medical rehabilitation for severely disabled persons within the limits of the annual national budget allocation for this purpose. This discretionary rehabilitation includes vocationally orientated medical rehabilitation (ASLAK) to maintain the working capacity of persons at work, adaptation courses and psychotherapy, and neuropsychological rehabilitation.

#### *Rehabilitation allowance*

Any resident of Finland<sup>4</sup> aged between 16 and 64 years is entitled to a rehabilitation allowance for the period when rehabilitation constitutes an impediment to work. The aim

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<sup>4</sup> The reform of the earnings-related pension scheme will increase the upper age limit for rehabilitation allowance from 65 to 68 years from the beginning of 2005.

of rehabilitation affording entitlement to rehabilitation allowance is continued participation in working life or entry/re-entry into working life. The rehabilitation allowance takes precedence over the daily allowance from sickness insurance. It is generally determined in the same way as sickness allowance in sickness insurance. Rehabilitation allowance is taxable income, and is linked to the earnings-related pension index.

In 2002 the rehabilitation expenses of the Social Insurance Institution amounted to EUR 266 million, of which EUR 49 million was paid in rehabilitation allowance. Rehabilitation measures were financed for 87,000 persons.

### **3.4.2. Rehabilitation by authorised pension providers**

Rehabilitation supported by authorised pension providers is discretionary, and mainly applies to people who participate actively in working life, seeking to prevent incapacity for work and to support continued participation in working life, and also to people who are unfit for work, seeking to restore their working capacity and support re-entry into working life.

Rehabilitation under the earnings-related pension scheme is vocational rehabilitation, such as counselling, rehabilitation studies, training or counselling that leads to a profession and employment. Pension providers may also support measures to maintain working capacity.

The rehabilitation allowance and the rehabilitation increment are usually paid during periods of rehabilitation. The rehabilitation increment is equal to a full disability pension under earnings-related pension legislation, plus a supplement of 33 per cent. The rehabilitation increment is 33 per cent of pensions currently paid. The rehabilitation allowance and rehabilitation increment are taxable income, and are linked to the earnings-related pension index.

Discretionary rehabilitation assistance may be paid after the rehabilitation period if this is necessary in order for the person to find work. Rehabilitation assistance is not paid for any period when unemployment allowance is paid.

About 5,000 persons participated in rehabilitation arranged by authorised pension providers during 2002. The costs amounted to approximately EUR 24 million. The number of rehabilitees has increased almost tenfold in ten years.

## **3.5. Benefits for the disabled**

The benefits paid to disabled persons are child disability allowance, regular disability allowance and pensioners' care allowance. The Social Insurance Institution (Kela) is responsible for administering these benefits. Child disability allowance is granted to disabled children living in Finland. Residence in Finland is also a condition of eligibility for disability allowance and pensioners' care allowance.

### 3.5.1. Disability allowance and child disability allowance

Disability allowance seeks to provide financial support in their everyday life, work and studies mainly to disabled persons of working age other than those who are retired. The allowance is paid to persons aged 16–64 years whose functional capacity is impaired due to illness or handicap. Disability allowance is paid on three levels: basic allowance, higher-rate allowance and special-rate allowance. The allowance was paid to 20,200 persons in 2002.

A disability pension under the National Pensions Act and a full disability pension under earnings-related pension legislation or an individual early retirement pension are impediments to eligibility for disability allowance. A person receiving a benefit for disability under the Workers' Compensation Insurance Act, the Motor Liability Insurance Act or the Military Injuries Act is also not eligible for disability allowance.

Child disability allowance may be granted to disabled or chronically ill children aged under 16 years. The allowance is paid at three different rates according to the strain of caring for the child: basic allowance, higher-rate allowance and special-rate allowance. Child disability allowance was paid to 41,500 persons in 2002.

Child disability allowance and regular disability allowance are not paid to persons in public institutional care.

These two allowances are of equal size, varying between EUR 77 and EUR 333 per month as of 2003. A special monthly dietary grant of EUR 21 may also be paid as part of the disability allowance.

The size of the child disability allowance and regular disability allowance are not affected by earnings or wealth. They are not taxable, and are linked to the cost-of-living index.

### 3.5.2. Pensioners' care allowance

Pensioners' care allowance supports the upkeep and care at home of a sick or disabled person, and reimburses special costs arising from the illness or handicap.

The allowance is payable to claimants resident in Finland who are 65 years old, or to those under 65 years of age who receive a disability pension, rehabilitation allowance or individual early retirement pension. A further condition of eligibility is that the person's functional capacity has been impaired due to the illness or handicap.

Receipt of benefits based on the need for assistance and paid under the Workers' Compensation Insurance Act, the Motor Liability Insurance Act and the Military Injuries Act are impediments to eligibility for care allowance. Pensioners' care allowance is also not paid to persons in institutional care.

Pensioners' care allowance is scaled into three groups based on the need for assistance and the size of special costs. The monthly rates payable in 2003 varied between EUR 51 and EUR 256, and the allowance was paid to 168,700 beneficiaries in 2002. A special monthly dietary grant of EUR 21 may also be paid as part of the allowance. The care allowance is not taxable.

## 4. Social services

Under the Social Welfare Act, local authorities are responsible for arranging social services for their residents. This duty may be discharged through local authority social services provision, subsidised service provision or other arrangements. Social services include social work, child guidance and family counselling, home help services, housing services, institutional care, family care, child welfare, children's day care and informal care allowance, as well as care for intoxicant abusers. The Social Insurance Institution (Kela) also pays day care subsidies as an alternative to children's day care services.

Among the various services for children and families, this discussion will focus on children's day care and family subsidies for day care. Services for the elderly include serviced housing, old people's homes, care at the in-patient wards of health centres, and regular domiciliary care services. The informal care allowance that supports domiciliary care will be examined in greater detail herein.

Local authorities are responsible for financing these services. This finance is largely covered by local tax revenues, supplemented by central government transfers to local government and fees. Local authorities in Finland are entitled to levy taxes, and such taxation is an important source of income.

### 4.1. Children's day care

Children's day care means arranging day care for children in nurseries, as family day care, as play activities or in the form of other day-care operations.

All children under school age (seven years) are entitled to a full-time place in a nursery or in family day care arranged by the local authority. Entitlement to day care begins when the period of maternity, paternity and parental allowance under the Sickness Insurance Act ends, and it continues until the child starts comprehensive school. If the child participates in pre-school education before starting comprehensive school, then day care may be arranged on a part-time basis.

The day-care fee is income-related, and the maximum monthly fee for one child was EUR 200 in 2003.

A total of 197,200 children (48 per cent of all children aged under 7 years) were in day care in 2001, of which 132,100 attended nurseries and 65,100 were in family day care. There were 2,384 nurseries. Pre-school education was attended by 61,700 children, of whom 49,100 were in pre-school education provided by day-care institutions.

## 4.2. Children's day-care subsidies

Children's day-care subsidies are paid in the form of a cash allowance for arranging day care for children. The allowance is an alternative to day care arranged by the local authority. The Social Insurance Institution (Kela) is responsible for administering this allowance. Besides the statutory allowance, a local authority may pay its own allowance to families as a "local authority supplement". Children's day-care subsidies are paid in the form of a child home care allowance and a private day-care allowance. No family may receive both child home care allowance and private day-care allowance at the same time.

It is a condition of receiving children's day-care subsidy that the child is not in local authority day care.

The right of parents to choose between local authority day-care services and children's day-care subsidy begins when the period of parental allowance ends, and it continues until no later than the last day of July in the year when the child starts comprehensive school.

### 4.2.1. Child home care allowance

Child home care allowance is payable to families with children aged under 3 years. Child home care allowance is also payable for other children under school age in the family who are in the same type of day care.

The child home care allowance may include a care allowance and a care supplement. The care allowance is paid for each child. The monthly allowance in 2003 for one child aged under 3 years was EUR 252, plus a further EUR 84 for each following child aged under 3 years and EUR 50 for other children under school age.

The care supplement is income-related, and is only paid for one child. The care supplement may not exceed EUR 168 per month (2003).

The average monthly child home care allowance paid per family in 2002 was EUR 345.

### 4.2.2. Private day-care allowance

Private day-care allowance is paid to a private provider of day care for arranging day care for a child under school age as assigned by the parents. The allowance is paid for each child in the family from the end of the period of parental allowance until the child starts comprehensive school. If the family has children aged under 3 years, then it may choose between child home care allowance and private day-care allowance.

The private day-care allowance may be paid as a care allowance and a care supplement for each child under school age. EUR 118 per month in care allowance is paid for each child under school age (2003). The care supplement is income-related, is paid for a child under school age, and may not exceed EUR 135 per month (2003).

The average private day-care allowance per family in 2002 was EUR 173 per month.

### 4.3. Informal care allowance

Informal care allowance refers to the fees payable to carers and services to support the care of an elderly person or a disabled or ill person at home. Informal care allowance may be granted when a person needs care and assistance due to diminished functional capacity, illness, disability or some comparable reason, and it is possible to arrange care in the person's home by agreeing this with family members or relatives of the person concerned and through the necessary services. Informal care allowance may be granted on the basis of both temporary and long-term need for care.

The informal care allowance in Finland is an official, statutory social service, financed with local authority participation. Local authorities may also receive central government transfers to local government in order to finance the informal care allowance.

Informal care allowance is usually provided in the form of cash and services. The minimum size of the allowance in 2003 was EUR 224 per month. No income testing is required for the allowance, which instead depends on the disabled person's need for assistance.

24,630 persons were covered by the informal care allowance in 2001, of whom 65 per cent were aged over 65 years. This means that informal care allowance is mainly a form of home care allowance for the elderly.

### 4.4. Geriatric services

Geriatric services provide for the needs of persons aged over 65 years and seek to sustain and improve their ability to manage their lives independently. The principal geriatric services are domiciliary services and institutional care for the elderly (old people's homes and care at health centre in-patient wards). Local authority domestic help was provided to 84,000 pensioner households in 2001. Serviced housing for the elderly covered 22,700 persons, 20,500 persons lived in old people's homes and 13,600 persons were cared for at health centre in-patient wards. 7.3 per cent of the population aged over 65 years was covered by institutional and housing services in 2001.

### 4.5. Care of intoxicant abusers

Care of intoxicant abusers seeks to prevent and diminish the abuse of alcohol, narcotics and other intoxicants and the incidence of related social problems, and to promote the functional ability and security of intoxicant abusers and their families.

Under the Care of Alcohol and Drug Abusers Act local authorities must arrange the care of intoxicant abusers within their districts. Services in the care of intoxicant abusers are to be arranged by developing health and social services and by providing services intended for the care of intoxicant abusers primarily through non-institutional care. Services are provided based on the need for assistance, support and care of intoxicant abusers and their families.

Care of intoxicant abusers is implemented as part of the social work functions of, e.g. social services offices, domiciliary services, geriatric care and health care. Other care services for intoxicant abusers include non-institutional care services, outpatient clinics for intoxicant abusers and short-term treatment centres for young drug abusers, and institutional care services at detoxification centres and rehabilitation units. Housing services falling within the scope of care of intoxicant abusers are arranged, for example, in half-way houses and through residential housing services for intoxicant abusers.

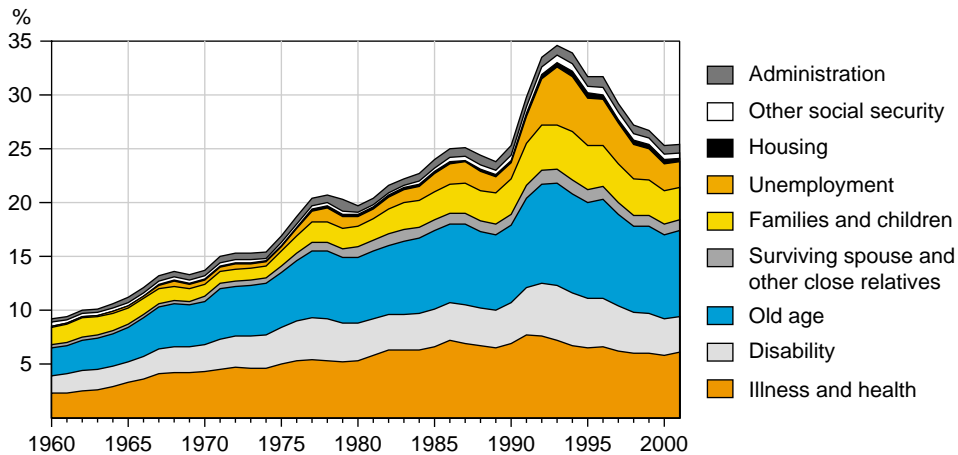
Clients of care services for intoxicant abusers in 2001 numbered 11,400 at detoxification centres and rehabilitation institutions, 42,000 at outpatient clinics for intoxicant abusers, and 4,900 at short-term treatment centres for young drug abusers. More than two-thirds of these clients were male.

# 5. Social expenditure and financing<sup>5</sup>

## 5.1. Social expenditure

This chapter examines the share of social expenditure in gross domestic product (GDP) by type of function.

**Figure 1. Public social expenditure by function as a percentage of GDP in 1960–2001 (SOMERA Commission, 2002).**



By 2001 the share of social expenditure in Finland's GDP had grown to 250 per cent of the corresponding figure in 1960 (figure 1). A review of the last ten years or so indicates that although this share initially increased, it has since returned to the level of 15 years ago. This behaviour was due to the recession of the 1990s and the cuts made in order to control its effects. During the recession social expenditure reached a record high level of about 35 per cent of GDP. The variation in social expenditure during the period preceding the recession fairly reflects the expansion and increase in the level of social security benefits and public services. The rapid increases and temporary declines were caused by fluctuations in the growth rate of the economy.

The ageing of the population has not yet increased expenditure to any significant degree. The growth in expenditure related to old age is primarily due to the maturation of the earnings-related pension scheme. Maturation means that an increasingly large portion of the career of retired persons has occurred after the earnings-related pension acts took effect, up to the point at which all retired persons have accrued a pension during their entire career.

<sup>5</sup> This chapter was written by Jorma Jauhiainen, Pertti Pykälä and Reijo Vanne.

## 5.2. Financing of social expenditure

The sources of financing of public social expenditure are usually examined according to the direct and nominal payer, and by the type of financing. The expenditure is financed directly by the State, local government, employers, and insured individuals. Obviously the State and local government finance their contributions in turn from a broad social tax base. Nor is it necessarily the nominal payer that will ultimately be affected, for example, by an extra burden in the current system, because the imposition of new charges will mean that economic agents change their behaviour within the limits permitted under market conditions.

Public social expenditure is financed by taxes, parafiscal charges, insurance contributions and client charges. All but the last of these are included in the taxes per GDP, which is the ratio of the total statutory taxes and charges collected and payable to the general government in any given year to the GDP for the same year.

Client charges are paid for public services, meaning that there is a connection between the charge and the benefit. However, the charge is not necessarily related to the cost of providing the service. An insurance contribution, on the other hand, is related to the expected benefit, insofar as the greater the liability to pay insurance contributions is, the larger the benefit will be. Also in public schemes employers pay insurance contributions in order to insure their employees. As for parafiscal charges, there is no relation between the individual and the benefit or expected benefit, but earmarked charges are, however, paid to the general government unit responsible for the benefit scheme concerned. There are no earmarked charges in financing from tax revenues.

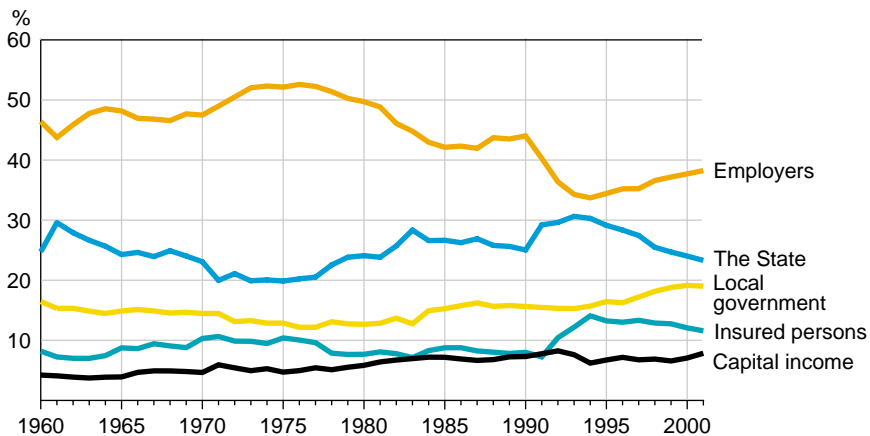
Public statutory social security in Finland also involves considerable funding of contributions to prepare for future expenditure. In the private-sector earnings-related pension scheme there are investment assets serving as coverage for pension liability, i.e. for future pension expenditure, and as a buffer against insurance, investment and cyclical risks. In the public-sector earnings-related pension scheme there are large buffer funds to provide for the increase in the number of pensioners in proportion to the size of the working population. There is a buffer fund in the earnings-related unemployment security scheme in case of cyclical fluctuations, and in the national pension and sickness insurance schemes in order to maintain liquidity.

As social security schemes are classified as funded schemes and pay-as-you-go systems, the risk, cyclical and liquidity buffers are not considered funding by a narrow definition, and thus schemes other than the private-sector earnings-related pension scheme are entirely pay-as-you-go systems in a financial sense. The earnings-related pensions are partly funded, i.e. the present value of the accrued rights remains larger than the market value of the assets. In the following discussion the schemes in which the funds are of a buffer nature only will also, however, be called funded schemes. The definition will then cover all of the schemes that are not financed entirely by taxes or client charges. At least part of the financing in these schemes is based on insurance contributions, which may indeed be parafiscal, i.e. not connected to the benefit.

In each scheme there is a target level or target zone for the amount of the assets, which is based on a decision or agreement. The contributions are set in advance, usually annually, so that the target will be reached when the benefit expenditure and the administrative costs are deducted from the income from contributions and investments, and from any other possible income. The bases for and rules for determining the target level or the target zone vary considerably from scheme to scheme. The purpose of funding is an optimally even contribution over time, and in the funding of earnings-related pensions also to allocate the burden of contributions according to the costs incurred.

The contribution and funding target for buffer funds are set at the same time, because in each situation one should consider whether it is better to accumulate or dissolve funds from the point of view of the target of even contributions. When the social insurance contributions have been set so that the funds are increased, the total amount of the premiums earned and the expenditure financed by taxes exceeds the social expenditure. In the year 2000 the share of the flows of financing of social expenditure amounted to 28.4 per cent of GDP, which was 3.2 percentage points higher than the social expenditure. Figure 2 illustrates the distribution of financing according to direct investor, but in a manner describing the income from funds separately.

**Figure 2. Distribution of financing of public social expenditure in 1960–2001 (SOMERA Commission 2002).**



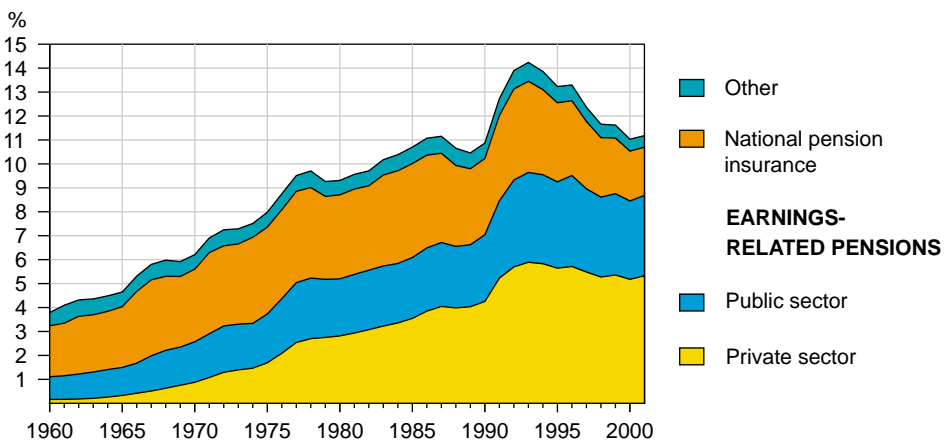
From 1960 onwards the employers' share of financing reached its highest level in 1972–1979 when the share exceeded 50 per cent (the highest level was 52 per cent). The share paid by insured persons doubled rapidly in the period 1991–1994, increasing from 7 per cent to 14 per cent. The most important reason for this was the employee's earnings-related pension and unemployment insurance contributions introduced in 1993. The shares of the State and the employers have also moved in opposite directions over the last few years, with a slight rise in the employer's share and a slight fall in that of the State. The share of the income from funds has increased at an even rate.

## 5.3. Pensions

### 5.3.1. Total pension expenditure

Besides the earnings-related pensions of the private and public sectors and the national pensions, total pension expenditure includes pension benefits paid under the Military Injuries Act, the Workers' Compensation Insurance Act and the Motor Liability Insurance Act. Early retirement pensions for farmers, such as farmers' early retirement aid, are also included in total pension expenditure. Figure 3 shows pension expenditure by scheme in relation to GDP.

**Figure 3. Share of pension expenditure in GDP in 1960–2001 (Statistical Yearbook of the Social Insurance Institution, Finland 2002, Eläketurvakeskuksen katsauksia [Reviews of the Finnish Centre for Pensions] 2003:3).**



The share of total pension expenditure in GDP was approximately 11.3 per cent in 2002, of which the pensions paid by the Social Insurance Institution (Kela) amounted to about 2 percentage points and the earnings-related pensions to around 9 percentage points.

The earnings-related pensions accrue on the basis of the length of the career and from earnings. This means that it takes a very long time before the effects of legislative amendments can be seen. For example, the entry into force of the Employees' Pensions Act (TEL) continues up to about 2040 in the sense that only by then will all retired persons have been able to accrue a full pension under the Act while in active employment. The Employees' Pensions Act took effect back in 1962, however. The share of earnings-related pension expenditure in GDP started to decrease after the recession of the 1990s, due to both rapid economic growth and cuts in benefits.

The figures in figure 3 also include supplementary pensions in line with labour market agreements. This is why the private sector also had earnings-related pension expenditure even before 1962. Nowadays, the sum paid in such pensions amounts to approximately 0.3 per cent of GDP.

Benefits are paid to a lesser extent on the basis of voluntary individual pension insurance than of the “second-pillar” benefits based on labour market agreements. Voluntary insurance did not, however, become common until the 1990s. About 15 per cent of the working-aged population have voluntary insurance, and the premium income amounts to approximately 0.4 per cent of GDP. The level of expenditure is also likely to exceed 0.5 per cent of GDP before long.

### 5.3.2. Financing of earnings-related pensions

At the end of 2002 there were 1,131,000 beneficiaries of earnings-related pensions, of which 948,000 drew a private-sector earnings-related pension and 429,000 received a public-sector earnings-related pension. It is possible for a person to receive both a public-sector and a private-sector pension at the same time.

The main provisions governing the financing of statutory earnings-related pensions determine the portion of the pension contribution to be funded and the portion used for the pay-as-you-go component under various earnings-related pension acts. These provisions also stipulate how to divide the total contribution between employers and employees for work covered by the said acts. Table 1 shows the level of contributions according to various pension acts in 1990–2003.

**Table 1. Earnings-related pension contributions as a percentage of earnings of insured persons in 1990–2003 (Eläketurvakeskuksen katsauksia [Reviews of the Finnish Centre for Pensions] 2000:5 and 2003:3).**

Employees	Average total contribution					Employee share			State subsidy private sector
	1990	1995	2000	2003		1995	2000	2003	
TEL	16.9	20.6	21.5	21.4	(15.4–25.7)	4.0	4.7	4.6	-
LEL	18.1	21.8	22.2	22.2		4.0	4.7	4.6	-
TaEL	14.8	15.0	17.0	17.8		4.0	4.7	4.5	-
MEL	16.0	18.0	20.0	21.0		9.0	10.0	10.5	yes
VEL	..	23.5	23.5	23.5		4.0	4.7	4.6	
KuEL	18.0	24.1	26.4	27.4		4.0	4.7	4.6	
KiEL	12.4	31.0	31.7	31.6		4.0	4.7	4.6	
<b>Self-employed</b>	<b>Basic contribution</b>					<b>Average</b>			
YEL	16.9	20.2	21.0	21.4		17.3	19.1	19.5	yes
MYEL	16.9	20.2	21.0	21.4	(10.5–21.4)	8.3	10.4	10.5	yes

The employee’s pension contribution had not yet been introduced in 1990. Under the State Employees’ Pensions Act (VEL), the contribution was not determined on the basis of wages and salaries, but pensions in payment were financed from tax revenues.

In work covered by the Employees’ Pensions Act (TEL) the final total contribution depends on how many employees the employer has who are covered by the Act, the age of the employees, and the bonuses granted by the authorised pension provider. The bonuses depend on the pension provider’s investment income and solvency. The figures in the table include both the funded component and the pay-as-you-go component. The pay-as-you-go

component is used for pensions payable during the year in question. Each pension payable contains a funded component calculated on the basis of funding rules, and the fund related to the pension is dissolved in proportion to the funded component. The rest of the pension is financed from the pay-as-you-go system.

The average level of the contribution used for the pay-as-you-go system is determined jointly within the private sector, i.e. in the Employees' Pensions Act (TEL), the Temporary Employees' Pensions Act (LEL), the Self-Employed Persons' Pensions Act (YEL) and the Farmers' Pensions Act (MYEL). The contribution currently used for the pay-as-you-go system is about 15 per cent of earnings, and this contribution finances the index increases accumulated at various stages in the pensions payable under these acts, two-thirds of the old-age pensions accrued between the ages of 23 and 54, old-age pensions accrued between the ages of 55 and 64 years, and 20 per cent of the initial amount of disability and unemployment pensions (at the age of 65 these pensions are converted into old-age pensions), as well as the preserved and vested rights of these pension benefits in their entirety. Part-time pensions and survivors' pensions are also financed by the pay-as-you-go system.

In the private sector the other parts of the pension are financed by the funded contribution, i.e. one-third of old-age pensions accrued between the ages of 23 and 54, and 80 per cent of the initial amount of disability and unemployment pensions. Besides the pay-as-you-go component, the earnings-related pension contribution includes an old-age, disability and unemployment component. The sizes of the old-age, disability and unemployment component are determined actuarially, so that the funded pension components can be financed in future by these components and by annual revenues of the size of the discount rate (3 per cent annually). The total contribution differs between the various private-sector pension acts because life expectancy, disability and unemployment risks vary between industries. The average life expectancy is taken into account when determining which component of the contribution to use for funding the old-age pension. When life expectancy increases, the contribution rises, and thus the funding rate does not decrease.

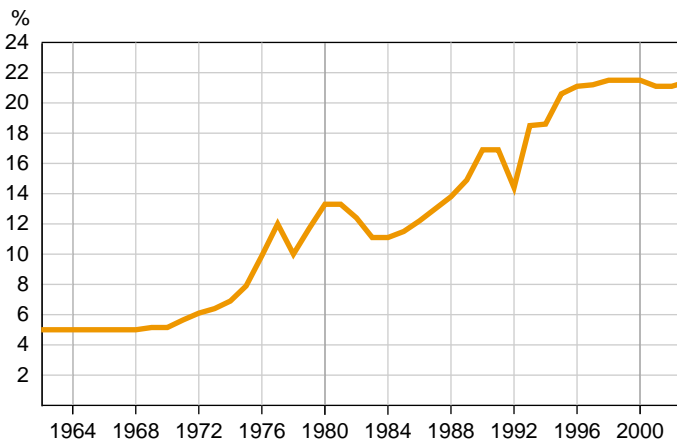
The increase in assets resulting from income from investments covering funded pension components in the private sector corresponds to the increase in pension liabilities. Pension liability is increased by at least 3 per cent annually, and old-age pension liability by a further amount confirmed by the Ministry of Social Affairs and Health. If a pension provider's income from assets is lower than the discount rate and the confirmed increase in old-age pension liability, then the pension provider must transfer assets from its previously accumulated solvency margin as coverage for the pension liability. This decreases the solvency of the pension provider. If the income from assets is sufficient for an increase in liabilities, then a larger portion of future pensions can be financed from savings than would be possible without these transfers. The pay-as-you-go component and the contribution will decrease correspondingly in the future. Under the Finnish system, the income from pension assets is used to reduce the contribution, and not to increase the pension level as in defined contribution schemes. Correspondingly, poorer investment income primarily means larger contributions, and not smaller pensions.

The funding rate in the private sector is currently 26–27 per cent when calculated as the proportion of investment assets in the current value of pensions in payment or pension rights accrued up to the time of calculation. The probable time of payment and duration of the pension paid on the basis of the accrued rights is taken into account when calculating the current value.

It has not been possible to increase the level of the contribution for farmers’, self-employed persons’ and seamen’s pensions as much as the ratio of the number of pensioners to the number of persons in employment would require. This means that the pensions accrued from work under the Farmers’ Pensions Act (MYEL), the Self-Employed Persons’ Pensions Act (YEL) and the Seamen’s Pensions Act (MEL) are partly financed by the State, and this proportion is estimated and determined annually as part of process of preparing the State budget.

The funded component in the public sector is not determined actuarially on the basis of risks, but on the basis of long-term strategies concerning the balance of financing in the pension schemes under the Local Government Pensions Act (KuEL) and the State Employees’ Pensions Act (VEL). The most important factor to be considered in these strategies is to keep the contribution as even as possible, or at least to increase it over time as the ratio of the number of pensioners to the number of persons in employment increases. The funding rules in the private sector also lead to an even development of contributions in comparison with the hypothetical situation in a pure pay-as-you-go system. With respect to the development of contributions in the public sector and the dimensioning of the funded component, the greatest point of uncertainty concerns the future share of public service provision in the growing need for services that will arise, for example, due to the ageing of the population.

**Figure 4. The average earnings-related pension contribution under the Employees’ Pensions Act (TEL) (total employer and employee share) as a percentage of pay in 1962–2003.**



The development of the contribution under the Employees' Pensions Act (TEL) (figure 4) shows two periods when the contribution has been stable, i.e. the early years of the 1960s (5 per cent) and the last few years (about 21 per cent). Between 1970 and 1996 the contribution increased by approximately 16 percentage points.

The employee contribution was introduced in all earnings-related pension schemes in 1993. Initially this was 3 per cent of pay. The employer's contribution was correspondingly reduced. The employee contribution in 2003 was 4.6 per cent of the pay for all work. For work under the Seamen's Pensions Act (MEL), however, the contribution is 10.5 per cent of pay, matching the employer's contribution. According to the agreement of the labour market organisations, future changes in the contribution under the Employees' Pensions Act (TEL) will be divided equally between the employer and the employee. In work falling within the scope of other pension acts the employee contribution will also be the same in future as under the Employees' Pensions Act (TEL).

### 5.3.3. Financing of national pension insurance

775,000 beneficiaries were receiving a national pension at the end of 2002. 679,000 of these received a national pension proportional to the earnings-related pension. The remaining just under 100,000 national pensions were paid as a pure housing allowance, pensioners' care allowance, front-veterans' supplement or child increase. Of the national pensions proportional to the earnings-related pension, 74 per cent were old-age pensions, 22 per cent were disability pensions and the rest were unemployment pensions. The total national pension insurance expenditure was EUR 3,029 million in 2002.

**Table 2. The bases for the national pension insurance contribution in 1990–2003 (per cent).**

	1990	1995	2000	2003
<b>Insured persons</b>				
<b>Employers</b>	1.55	0.55	-	-
<b>Private sector*</b>				
Class I	3.40	2.40	2.40	1.35
Class II	4.45	4.00	4.00	3.55
Class III	5.05	4.90	4.90	4.45
<b>Public sector</b>				
The State	3.95	3.95	3.95	3.95
Local government and parishes	3.95	3.95	3.15	2.40

\* The contribution class for private employers depends on the depreciation of company assets.

The national pension insurance is financed by insurance contributions, State subsidies, a share of value added tax revenues, and income from the assets of the Social Insurance Institution (Kela) (table 3).

The State finances housing allowances for pensioners, survivors' pensions, front-veterans' benefits, disability allowances and child disability allowances in full, and 29 per cent of the national pensions proportional to the earnings-related pension.

Since 1993 a sum granted by Parliament each year has been transferred from value

added tax revenues to the national pension insurance fund. This share was EUR 500 million in 2002.

To ensure the liquidity of the national pension insurance fund, the net current assets of the fund must amount to at least 4 per cent of the fund's total expenditure at the end of the year. If the income does not suffice to finance the expenditure, then the State pays the remainder as a "guarantee payment". No guarantee payment was needed in 1999–2001, but the reduction in employers' insurance contributions meant that a guarantee payment of EUR 24 million was needed in 2002. The State may also have to remit a temporary payment in order to secure liquidity when the fund's assets have fallen to the minimum level.

**Table 3. Distribution of income from national pension insurance in 2002.**

	Income, EUR million	Share of income, %
Insurance contributions	1,347.6	44.9
State share of benefits	1,144.5	38.1
Share of VAT revenues	50.0	16.7
Income from assets	9.0	0.3
<b>Total</b>	<b>3,001.1</b>	<b>100.0</b>

## 5.4. Financing of sickness insurance

The total expenditure of the Social Insurance Institution (Kela) on sickness insurance, including rehabilitation, amounted to EUR 2,926 million in 2002. Expenditure on national sickness allowance was EUR 603 million and expenditure on parenthood allowance was EUR 536 million in the same year.

Reimbursement of medicine costs in 2002 amounted to EUR 859 million, and approximately 20 million co-payments were made by clients. The private sector accounts for about 18 per cent of the visits to a doctor in outpatient care. The Social Insurance Institution (Kela) reimbursed a total of EUR 65 million to 1,483,000 insured persons for doctor's fees paid in the private sector. 706,000 insured persons were reimbursed a total of EUR 65 million in dentist's fees. EUR 55 million was reimbursed in costs for services provided by medical examination and medical care institutions in the private sector. EUR 122 million was paid in travelling expenses allowance. Occupational health care covers 80 per cent of employees, approximately 30 per cent of self-employed farmers and 20 per cent of other self-employed persons working independently, as well as the operation of the Finnish Student Health Service. Reimbursement for occupational health care services amounted to a total of EUR 154 million in 2002.

The rehabilitation expenses of the Social Insurance Institution (Kela) in 2002 amounted to EUR 266 million. EUR 212 million was spent on individual rehabilitation, and EUR 49 million was disbursed in rehabilitation allowances. 87,000 persons were reimbursed for rehabilitation services, of whom 16,600 received vocational rehabilitation for persons

with impaired working capacity, 20,000 received medical rehabilitation for person with severe disabilities, and 52,700 received other vocational and medical rehabilitation. Rehabilitation allowance was paid to 58,700 persons. The distribution of rehabilitation costs among other parties is explained in section 5.5.

**Table 4. The bases for the sickness insurance contribution in 1990–2003 (per cent).**

	1990	1995	2000	2003
<b>Insured persons*</b>	<b>1.70</b>	<b>1.90</b>	<b>1.50</b>	<b>1.50</b>
<b>Employers</b>				
<b>Private sector</b>	<b>1.45</b>	<b>1.60</b>	<b>1.60</b>	<b>1.614</b>
<b>Public sector</b>				
<b>The State</b>	<b>2.70</b>	<b>2.85</b>	<b>2.85</b>	<b>2.864</b>
<b>Local government and federations of municipalities</b>	<b>3.95</b>	<b>2.85</b>	<b>1.60</b>	<b>1.614</b>
<b>Parishes</b>	<b>4.20</b>	<b>7.85</b>	<b>1.60</b>	<b>1.614</b>

\* The employee contribution in 1995 was 3.8 per cent of the proportion of the annual salary exceeding EUR 13,500. The pensioners' contribution was 3 per cent higher in 1995 and 1.7 per cent higher in 2000. There was no increase in the pensioners' contribution in 2003.

Sickness insurance is financed by contributions paid by insured persons and employers, by State subsidies, by a share of value added tax revenues, by payments from insurance providers pursuant to the principle known as "full compensation", and by other income (see table 5).

The costs of minimum payments of parenthood allowances and the medical expenses of Finnish citizens who have fallen ill in countries with which Finland has concluded a social security agreement are fully financed by the State.

EUR 150 million in value added tax revenues was allocated to the sickness insurance fund in 1993 and EUR 34 million in 1994. This share was EUR 200 million in 2002. As of 1999, EUR 51.6 million has been collected from insurance providers for transfer to the sickness insurance fund as compensation for treatment in health centres of persons falling within the scope of motor liability and workers' compensation insurance. The allocation of these payments to the sickness insurance fund is decided annually by Parliament.

Other income includes income from assets and recovery payments.

To safeguard the liquidity of the sickness insurance fund, the net current assets of the fund must amount to no less than 8 per cent of the fund's total expenditure at the end of the year. Where necessary, the State meets the shortfall through a "guarantee payment". The size of the guarantee payment has increased annually since 1998 due to the shortage of financing caused by reducing the contributions of the insured. In 2002 the guarantee payment was approximately EUR 625 million. A temporary payment by the State is also needed in order to secure the liquidity of the fund when its assets have dropped to the minimum level.

In recent years assets have been transferred between the national pension insurance fund and the sickness insurance fund, i.e. the minimum level of one fund has been secured

by the assets exceeding the minimum level of the other fund. In 1995–1997 assets were transferred from the sickness insurance fund to the national pension insurance fund, and in 1999–2001 assets were transferred from the national pension insurance fund to the sickness insurance fund. Such transfers reduce the guarantee payment from the State.

The minimum level of the national pension insurance fund and the sickness insurance fund does not suffice to ensure liquidity in all situations. Ultimately the State safeguards liquidity through a short-term payment.

**Table 5. Distribution of income from sickness insurance in 2002.**

	Income, EUR million	Share of income, %
<b>Insured persons</b>	<b>1,082.3</b>	<b>46.8</b>
<b>Employers</b>	<b>918.4</b>	<b>39.7</b>
<b>State share of benefits</b>	<b>41.4</b>	<b>1.8</b>
<b>Share of VAT revenues</b>	<b>200.0</b>	<b>8.7</b>
<b>Payments from insurance providers</b>	<b>51.6</b>	<b>2.2</b>
<b>Other income</b>	<b>19.1</b>	<b>0.8</b>
<b>Total</b>	<b>2,312.8</b>	<b>100.0</b>

Expenditure on sickness insurance in 2002 exceeded income by EUR 620 million.

## 5.5. Financing of rehabilitation

Rehabilitation expenditure in 2002 was EUR 1,213 million, of which the share of income protection amounted to EUR 100 million. The largest expenditure items were the rehabilitation costs of the public health services (EUR 241 million), of the Social Insurance Institution (Kela) (EUR 225 million), and of social welfare (EUR 143 million). Other rehabilitation expenditure comprised remedial teaching in comprehensive schools, the labour administration, vocational remedial and special education, rehabilitation of disabled war veterans, rehabilitation of front-veterans, support from Finland’s Slot Machine Association – RAY<sup>6</sup>, rehabilitation granted by authorised pension providers and rehabilitation under workers’ compensation insurance and motor liability insurance.

Of total rehabilitation expenditure in 2000, the State accounted for 40 per cent, local government for 38 per cent, employers for 10 per cent, insured persons for 10 per cent, and clients for 2 per cent.

<sup>6</sup> Finland’s Slot Machine Association – RAY is an association governed by public law that exists to raise funds through gaming activities in order to support the work of Finnish voluntary health and welfare organisations. The members of the association are 97 health and welfare organisations operating nationwide.

## 5.6. Financing of unemployment security

A total of EUR 2,536 million was disbursed in compensation for periods of unemployment during 2002. This expenditure chiefly comprised earnings-related unemployment allowance (EUR 1,240 million), basic unemployment allowance (EUR 98 million), labour market support (EUR 985 million), benefits paid during training (EUR 157 million) and job alternation compensation (EUR 56 million). 303,000 beneficiaries received labour market support or basic unemployment allowance in 2002. 281,000 persons received earnings-related unemployment allowance in the same year.

The State finances minimum income protection for the unemployed in full, and the portion of the earnings-related unemployment allowance corresponding to basic unemployment allowance. The State's share of the basic unemployment allowance is, however, reduced by the share paid by the Unemployment Insurance Fund corresponding to the unemployment insurance contribution for persons not belonging to an unemployment fund. This share amounted to EUR 31.5 million in 2002.

The unemployment funds finance 5.7 per cent of earnings-related unemployment allowances, and the Unemployment Insurance Fund finances the remainder of the earnings-related unemployment allowances after the State and the unemployment funds have paid their respective shares.

**Table 6. Shares in financing of unemployment security in 2002.**

	Income, EUR million	Share, %
<b>Unemployment funds</b>	<b>76.7</b>	<b>3.0</b>
<b>The State</b>	<b>1,691.9</b>	<b>65.7</b>
<b>Unemployment Insurance Fund</b>	<b>805.2</b>	<b>31.3</b>
<b>Total</b>	<b>2,573.8</b>	<b>100.0</b>

Employees pay an unemployment insurance contribution amounting to 0.2 per cent of pay, and the part-owners of a company pay a contribution of 0.075 per cent of salary to the Unemployment Insurance Fund. Employers pay an unemployment insurance contribution of 0.6 per cent of pay up to a total payroll of EUR 840,900 and 2.45 per cent for the payroll exceeding this amount. Employees paid a total of EUR 203 million and employers EUR 1,020 million in unemployment insurance contributions in 2002.

## 5.7. Income protection for families with children

A total of EUR 1,366 million in family allowances was paid in 2002, and 1,047,000 children were entitled to a family allowance at the end of the year. EUR 371 million was disbursed in childcare subsidies, and there were 82,400 beneficiaries of these subsidies at the end of the year. Maternity grant expenditure was EUR 9.6 million, and 55,100 mothers received

this grant in 2002. More than three-quarters of these beneficiaries chose to receive the grant in the form of a maternity package containing baby clothes and other childcare items.

The State finances family allowances and maternity grants as tax-exempt income. The costs of child home care allowance and private day-care allowance are financed by local government.

## **5.8. Housing subsidies, financial aid for students and conscript's allowance**

EUR 413 million was paid in general housing allowance in 2002, and 160,000 households had received a housing allowance by the end of the year.

Expenditure on financial aid for students<sup>7</sup> was EUR 727 million, and 242,000 students had received financial aid by the end of 2002.

EUR 12.8 million was disbursed in conscript's allowances, and 11,800 households received this allowance in 2002.

The State finances the general housing allowance, the financial aid for students and the conscript's allowance.

## **5.9. Income support**

Income support was paid to 262,000 households in 2002. These households included 440,000 persons, which is just under 9 per cent of the population. Expenditure on income support amounted to EUR 480 million. Income support is financed by local government.

## **5.10. Health and social services**

Services account for just under 9 percentage points of the share of total social expenditure (approximately 25 per cent) in gross domestic product (GDP). Table 7 shows social expenditure by function and the share of services by function in 2001.

Social expenditure excluding administrative costs amounted to approximately EUR 34 billion in 2001, of which the cost of services was about EUR 11.6 billion.

Local government plays a key role in providing and financing health and social services, and taxation is an important source of financing. Funding is not used in the public financing of health and social security, and so the expenditure is equal to the financing that is needed and collected.

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<sup>7</sup> Outlays on financial aid for students are not classified as social expenditure but as educational expenditure.

**Table 7. Social expenditure and the share of services by function in 2001 (Social Welfare and Health Care Expenditure 2001).**

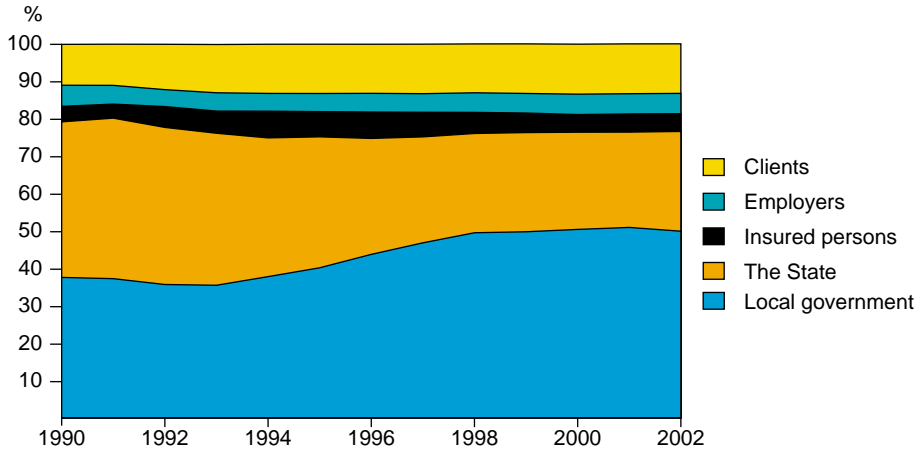
	EUR billion	Share of services, %
Health	8.3	80
Disability	4.6	24
Old age	11.0	10
Surviving spouse and other close relatives	1.3	0
Families and children	4.1	43
Unemployment	3.3	9
Housing	0.4	100
Other social security	0.7	37
Administration	1.1	-
<b>Total</b>	<b>34.8</b>	<b>33</b>

Of the health and social services provided by local government, EUR 5.2 billion was used for medical care and public health services in 2000. Local government spent EUR 2 billion on provision of institutional care, home-help and other services for the elderly and the disabled. The costs of child day care and other services for families with children amounted to EUR 1.9 billion. Local government outlays for other social services amounted to EUR 0.8 billion. Local government expenditure on health and social services totalled EUR 9.9 billion in 2000 (SOMERA Commission).

Public health services account for 50 per cent of local government service expenditure, and 20 per cent of service expenditure is on services for the elderly and disabled. Besides providing services included in public social expenditure, health and social services are produced by organisations, i.e. in the form of “third-sector” service provision and as free market services. The total share of private-sector service provision measured by the proportion of the population in employment amounted to approximately 14 per cent in 2000.

Local government provides about 90 per cent of services. However, due to State subsidies and client charges, the share financed by local government tax revenues was only about 50 per cent of the costs in 2000 (see figure 5).

Figure 5. Distribution of financing of public health and social services expenditure in 1990–2002 (SOMERA Commission 2002).

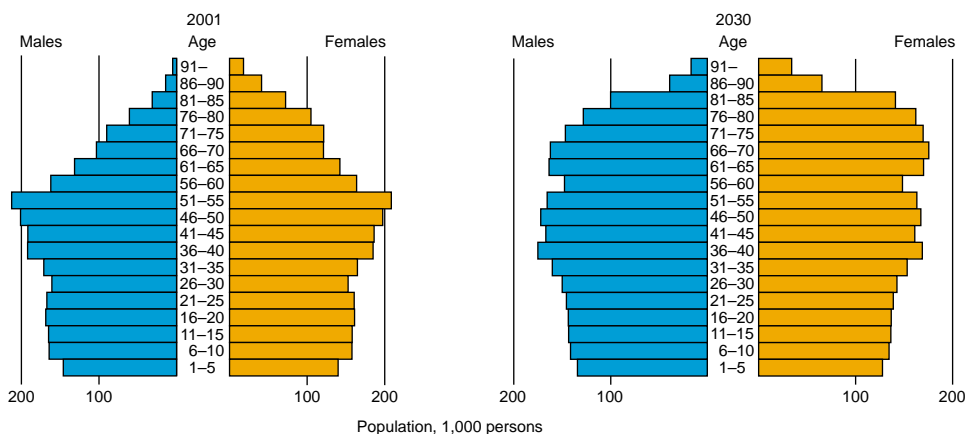


## 6. Outlook for social security

Finnish social security as a whole took shape after the Second World War, and was important in smoothing the transition from an agrarian society to a service and industrial society. Finland developed relatively rapidly into a Nordic welfare state, and the country's social security reached the Nordic level by the end of the 1980s. In the early 1990s Finland plunged into the most severe economic recession since the Second World War. However, thanks to the comprehensive social security system it was possible to maintain social unity and a reasonable income for the people. Despite the cuts of the 1990s, health and social security in Finland is still of a fairly high standard by comparison with that of many other European countries. Social security seeks to secure a minimum income and a reasonable level of consumption during illness, unemployment, incapacity for work, and old age, and to ensure adequate health and social services.

The Nordic welfare model is the basis for Finnish social security reforms. The ongoing changes in the operating environment for social security also have an impact on the social security system and its future financing. The principal changes are the globalisation of the operating environment and changes in the age structure of the population.

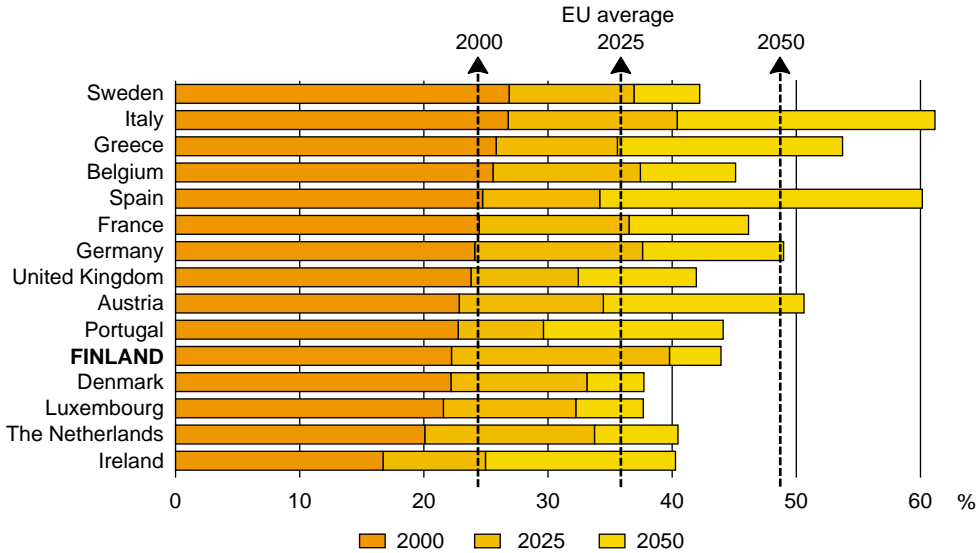
**Figure 6. Finnish population by age and gender in 2001 and 2030 (EUROSTAT population forecast 2000).**



An examination of changes in the age structure of the population in 2001 and 2030 indicates that the population of Finland is ageing. The baby boom generations born in 1945-1955 will reach retirement age in 2010-2020. The proportion of the population over 65 years of age will rise from 16 per cent to 27 per cent by 2030. As life expectancy increases, the number of persons who have reached the age of 80 will more than double by 2030. Women will also continue to live longer than men. According to the basic calculations of the SOMERA Commission, the ageing of the population will increase the share of

social expenditure in GDP by about 5 percentage points reckoned from the present level in 30 years' time, and the share will stabilise at this level. The reform of earnings-related pensions that enters into force in 2005 will reduce this increase by approximately one percentage point, leaving an increase of four percentage points.

**Figure 7. Dependency ratio of elderly persons in 2000, 2025 and 2050 in the present EU countries. Number (percentage) of persons of 65 years of age in proportion to the number aged 15–64 (EUROSTAT).**



The population is clearly ageing throughout the territory of the European Union over the next few decades (figure 7). According to EUROSTAT calculations, the number of persons aged 65 years or more will rise in proportion to those aged 15–64 (the dependency ratio of the elderly) in the present European Union area from 24 per cent to 36 per cent in 25 years and thereafter to 49 per cent by 2050. The rate of ageing varies from country to country. Finland is an exception, however. By 2025 the dependency ratio of the elderly will increase most in Finland, but thereafter up to 2050 it will increase least in comparison with the whole of the present European Union area.

Migration from rural areas into population centres appears likely to continue, which will affect the population structure both of areas showing a migration deficit and areas with a migration surplus. The significance of migration in regional population development will be further emphasised in future when the natural population change in the regions becomes negative. Immigration increased rapidly in the 1990s, with a fourfold rise in the number of immigrants. In the early 1990s immigration was of humanitarian character, mainly comprising refugee reception, but by the beginning of the new millennium its nature had changed. Work-related immigration has emerged alongside humanitarian immigration, and its importance will grow. These changes in migration and immigration will

also cause pressures on social security, and especially on residence-based health and social security.

The reform of earnings-related pensions seeks to maintain an even rate of earnings-related pension contributions despite the changing age structure of the population and the increase in life expectancy. The pension reform enables a clarification of pension legislation, increases fairness and public freedom of choice, and curbs pressures to increase pension contributions. It seeks to maintain current levels in the relationship between the income of pensioners and that of the working population. Furthermore, by staying longer in the labour market, insured persons will be able to improve their pension to pay ratio compared to the outcome under pre-reform provisions. It is felt that these measures will enable the Finnish pension system to adjust to the challenges of an ageing population.

Finnish residence-based minimum benefits have been of an internationally high standard. However, due to cuts made in minimum benefits towards the end of last decade, some of these benefits have fallen behind the general welfare trend and their real value has fallen. At the same time, the need for income protection has remained high as a result of widespread and prolonged unemployment. Unemployment and social security cuts have forced the recipients of minimum benefits to rely quite extensively on municipal income support that was intended as a last resort.

The progress of European integration also causes pressures on minimum benefits, because universal residence-based social security systems have to bear greater responsibility for a mobile labour force than other social security schemes. The challenge will then be to guarantee a minimum level of income for the entire population. The government programme for 2003 therefore proposes an increase in certain minimum benefits.

The most important challenges for minimum income protection are to make the system clearer and more straightforward, and to ensure a solid financial basis for minimum benefits. To correct this imbalance, the government programme for 2003 proposes a reform in the financing of sickness insurance. Under the proposed reform, sickness insurance would be financially divided into earned income insurance and medical expenses insurance. Expenditure on daily allowances paid from earned income insurance would be funded through State financing of minimum daily allowances and financing of other daily allowances by employers and insured persons. Medical expenses insurance would be financed jointly by insured persons and the State.

The health of the population in Finland has improved over the last 20 years. As the population ages and the baby boom generations reach retirement age, the need for health and social services will grow, and this trend will continue until the 2020s. Despite this positive trend, increased life expectancy and improved health result in higher morbidity and need for care. The demand for services will also grow as the clientele becomes more affluent and requirements and individual needs increase.

The public sector will retain primary responsibility for providing health and social services. The State and local government will be responsible for ensuring that the population receives equitable health and social services, irrespective of place of residence. The

State will have to ensure that local government enjoys adequate conditions for service provision. Local government will have a duty to ensure that the services provided are appropriate and of a high standard.

The share of private-sector and third-sector services, and of services in the form of insurance will increase in the future. These will enable consolidation of the financial basis for services, improve their availability and flexibility, and enhance the functionality of health and social services.

The ability of the private and public sectors to meet the need for health and social services will depend on the available human resources, on the functionality of public services, on the operating conditions for private services, and on the effectiveness of co-operation between primary health care and specialised services.

### **Relevant links on the World Wide Web**

Ministry of Social Affairs and Health

[www.stm.fi](http://www.stm.fi)

National Public Health Institute

[www.ktl.fi](http://www.ktl.fi)

National Research and Development Centre for Welfare and Health

[www.stakes.fi](http://www.stakes.fi)

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Statistics Finland

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The Finnish Institute of Occupational Health

[www.occuphealth.fi](http://www.occuphealth.fi)



This publication provides a brief overview of the development, present situation and prospects of Finnish social security. Finland developed relatively rapidly into a Nordic welfare state, and its social security system reached the Nordic level by the end of the 1980s. Despite the cuts made during the recession years of the 1990s, the standard of public health and social security in Finland remains fairly high by comparison with that of many other European countries. Changes in the age structure of the population, globalisation, and the progress of European integration also affect Finnish social security and its financing.

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