



**asisp Comment**  
**on the**  
**Member States' autumn 2009 reports on the**  
**implementation of their**  
**National Reform Programmes**

**Finland**  
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## **Pensions**

### **Flexicurity – what is the interaction between increased flexibility of labour markets and social protection? Are social protection reforms considered as an important impetus for increased labour market participation (e.g. reduced labour costs, higher retirement age, improved preventive health care etc.)?**

Many reforms have been realised, decided upon or are currently under preparation in Finland in order to boost flexicurity. One can argue that it has been the most remarkable activity of Matti Vanhanen's second Government. In the beginning of its term the Government appointed a committee (the so-called SATA Committee) to examine the social security system and make suggestions for its comprehensive reform. Both the Prime Minister and the minister responsible for social security have highlighted that the work of the committee i.e. the reform of social security system is the most important task of Vanhanen's second cabinet.

The targets of the committee were written as follows: "(1) to enhance the incentives to work, (2) to reduce poverty and (3) to insure an adequate level of subsistence in all kinds of life situations." This order of preferences has directed the suggestions of the committee. The work of the committee has dominated the preparation of social protection and flexicurity actions in Finland. The "workline" i.e. incentives to work has been the core of the work of the committee and many suggestions are decided and some are carried out.

By and large, the results and plans of the committee are represented in the Finnish Implementation Report, but an overall view is difficult to grasp on the basis of the report. The list of measures already being implemented, the reforms decided and the suggestions approved in order to enhance flexicurity are as follows:

- many measures in order to increase the level of unemployment benefit of the first weeks of unemployment in order to enhance training and job hunting activities of unemployed
- many measures to enhance the vocational training and also academic studies both in and out of work
- many measures to enhance preventive health care and rehabilitation and to increase the possibilities of disabled persons to become employed
- extending the possibilities to get partial unemployment benefit of those having lowly-paid part time work
- ongoing experiment of public "job bank" where employees hold a permanent position even if they have a temporary job in the open labour market
- removal of means-tested features of unemployment benefit (the benefits now take into consideration the incomes of the spouse and parents, and this creates incentive problems; from the point of view of public finances this is probably the most expensive of the above measures increasing the flexicurity).

Taken altogether, these measures mean remarkable steps towards flexicurity. On the other hand, there are four major problems if the measures are evaluated from the point of view of a breakthrough towards flexicurity.

1. None of the decisions or suggestions result in significantly higher unemployment benefits and, in that sense, the last part of flexicurity, i.e security, will remain rather unaltered. Today, one third of those receiving basic unemployment benefit are also eligible for last resort social assistance. Among long-term unemployed, a major part do receive last resort social assistance. Last resort social assistance aims to mitigate short-term temporary subsistence problems, and the practice of eligibility evaluation is humiliating.
2. Job banks are experimenting possibilities to take new decisive steps towards active labour market policy. Other measures to enhance the demand side of the labour market are missing.
3. Some measures enhancing the possibilities of disabled to become employed have been taken but they are modest and will have only minor effects. Measures “breaking the barriers” (as it is called in an OECD report dealing with disabled persons) in this sphere are missing.
4. The same must be said about the “bureaucracy trap” of unemployed. It is often frustrating for unemployed to take a short-time temporary job. The social security system reacts in a way that can upset the economic situation of short-term employed. Benefit payments are continued even if the recipient is no longer eligible; and they are then charged later on. In some countries, there are practices creating an economic incentive for the unemployed to take up short-term temporary jobs. New measures as mentioned above are taking some steps in this direction, but they are very modest and do not solve the bureaucracy trap.

**To what extent do measures to promote employment growth integrate the elderly and promote longer working lives? Does the economic and financial crisis have a specific impact on the significance of early exit pathways, and have there been any political measures which are specifically targeted at labour market participation of the elderly/other groups of the population?**

Three major amendments to be implemented in the future have been decided in the Finnish pension and social protection system in order to increase the labour market participation of elderly employees. They comprise (1) a cutback of part-time pensions, (2) a cutback of unemployment pensions and linked unemployment benefit, and (3) the introduction of a life expectancy coefficient to reduce the monthly payable pension in circumstances of increasing life expectancy.

*Part time pensions'* lower age limit will be raised to 60 years from the current 58 years. The change will take effect on 1 January 2011. Currently, both the actual earned income and the reduction in earnings due to part time retirement is considered in the calculation of the pension. As of 2011, pension accrual for the discontinued part of earnings will be abandoned and during the period of drawing part time pension new old-age pension rights will only accrue for earned income. The reason for degrading part-time pensions was their popularity and alleged effects. The original idea of the part time pension was to reduce early exit from the labour market. Experience and research results indicate that the favourable terms of part time pension tempted working people to move into part time pension, and there is no significant evidence of postponing effects on the retirement age.

The decision to change the terms of part time pensions has had counter effects. Latest news concernig the Finnish pension system tell that the information of a coming degradation of part time pensions has resulted in growing numbers of applications for part time pensions. The recession and increasing pressure to reduce staff have apparently also contributed to an increased number of applications.

*Unemployment pensions* may be awarded to long-term unemployed born before 1950 both in national and in earnings-related pension schemes. Thus, unemployment pension will disappear in the future. Subsistence for younger age groups of unemployed will be covered by unemployment benefits. Elderly unemployed are eligible for earnings-related unemployment benefit until retirement age and old-age pension. This continuous eligibility for earnings-related unemployment benefit is called “pension-pipe”. The lower age limit of continuous eligibility for unemployment benefit, i.e. for “pension-pipe”, is now 57 years and will be raised to 58 years. This modest change of the age limit will take effect 1 January 2013.

Research results have been published concerning the effects of the “pension-pipe” that are increasingly convincing. The results indicate that employers intend to lay off elderly because they are eligible for the “pension-pipe”. This means, almost without exception, a permanent exit from the labour market. From the employers’ viewpoint this a “soft” way of reducing employees and get rid of elderly employees who might perhaps have a limited capability to perform their work. Often the employees are reluctant to adopt the “pension pipe” but they have no better alternatives. On the other hand, it is sometimes an attractive option even for those who still have good qualifications to work. Thus, the “pension-pipe” leads to growing early permanent exit from the labour market of the elderly. On the other hand, the raising of the age limit of the “pension-pipe” has adverse consequences for those who will be laid off close to their retirement age and who have modest possibilities to find a new job. Their social safety net will deteriorate. It is obvious that the recession has been increasing the number of employees in the “pension pipe”.

*The introduction of the life expectancy coefficient* will be initially implemented in 2010. It is connected to the system where the pension accrues at a high rate (4.5% per year) between the ages of 63 and 68. The life expectancy coefficient adjusts the pensions to be paid to the changes in longevity as of 2009. It is an automatic stabiliser. When the old-age pension starts it is multiplied with the life expectancy coefficient. This reduces the monthly payable pension in circumstances of increasing life expectancy, but does not reduce the accumulated pension payable over the pension recipient’s whole time in retirement if the pension recipient reaches the age foreseen by the increase in life expectancy. In 2010, it will be applied to those who are born in 1948 and their pension will be multiplied with 0.9917. The idea is to eliminate the extra burden for the pension system due to increased longevity. Broadly speaking, if the life expectancy increases by four years, one must work two years more between 63 and 68 to compensate the impact of the life expectancy coefficient, i.e. to keep the replacement rate of ones pension.

*The preparation of further measures* to increase the retirement age had a peculiar start. The Government informed on 24 February 2009 about its intention to increase the normal minimum retirement age gradually to 65 years. This created heated discussion and as a result it was agreed between the Government and labour market organisations on 11 March 2009 that the Government give up their intention; but two working groups were established in order to increase the effective retirement age by three years by 2025. One working group prepares proposals for the reform of the

pension system. The other working group concentrates on well-being at work. The deadline of both working groups is 31 December 2009.

During the preparation some public discussions took place. The employers' organisations have stressed the importance of changing the pension system by increasing the minimum retirement age. The employees' organisations have stressed the importance of well-being at work in order to increase the retirement age.

### **What is the impact of the financial and economic crisis on the sustainability of the social protection systems (revenues of social protection systems, increased expenditures?)**

The social protection system contributes considerably to the increase of public debt, but no cuts in the area of social security have been made yet, nor is there respective information available for such plans at central government level. However, public discussion has grown larger among leading politicians. Some are anticipating inevitable appreciable cuts of the benefits and services of social protection in addition to increasing tax rates. Some are speaking more of maintaining the level of social protection by raising the debt-equity ratio and by increasing the tax rates.

The tax rate has not yet been increased on state level. The contrary is still the case – the policy of the tax cuts is continuing even though it is commonly understood that increasing tax rates are looming. More than half of the Finnish municipalities have already decided to raise their tax rates and apparently (no exact data is available) most municipalities have made decisions to cut their communal services and/or their communal forms of social security benefits.

The partly funded system of earnings-related pensions has made them less vulnerable to the recession. To avoid loss-making sales of capital investments, the regulations of solidity of financial investments of the insurance companies of the statutory earnings-related pensions were loosened in 2009 because of the recession. There has not been expressed any severe criticism against this solution.

### **Is reference made to the mutual reinforcement of economic, employment and social policies? Are social protection systems considered as an important stabilising factor in the light of the economic and financial crisis?**

The stabilising or stimulus characteristics of the social protection system have not been underlined in the discussion. It has not been denied, but it has not been emphasised either. There has been more discussion of their alleged adverse influence on employment.

## **Are relevant authorities (Ministries, Administration, NGO's) involved in the elaboration of the IPR?**

As it is informed in the Finnish Implementation Report, “a wide range of stakeholder delegates as well as Governmental representatives and public officials participated in preparation” and “the main interest groups and key economic agents” have been heard. As to my knowledge, this includes representatives of social partners and business life but the NGO's are bypassed.

## **Health**

### **Projects described in the Implementation Report**

Health care and long-term care are described shortly, and only a few pages of the report consider these aspects. The Ministry of Finance supposes that these services can be safeguarded only if the employment rate reaches a level above 75%, the efficiency of public service production improves and the population's health and functional capacity increases. In addition, the Ministry stresses the need to improve productivity in all fields including the public sector.

The Ministry refers to the aims of the Government as to reduce differences in health and well-being, to improve the availability and quality of social and health services, to increase participation and reduce social exclusion, to cut alcohol consumption, and to improve opportunities for the elderly to live at home and cope independently.

In order to reach these aims the Ministry suggests restructuring of municipalities and services by merging municipalities and attaching parts of municipalities to other municipalities. In addition, the service structure will be strengthened by consolidating services and increasing cooperation between municipalities. These reforms have been put into practice quite widely. The Ministry of Finance has initiated the Best Service Practices for Municipalities project in order to encourage municipalities to see to customer-oriented and effective development and provision of services.

In February 2009, the Ministry of Employment and the Economy has initiated a strategic development project for the welfare sector. The aims of the project are: 1) to safeguard conditions for the supply of skilled labour in a situation in which service needs are growing at the same time as sector workers are retiring; 2) to improve conditions for entrepreneurship as well as start-up, growth and internationalisation of business activities; 3) to boost the productivity of the welfare sector. Wide cooperation between the public and private sectors is stressed in order to allow for the growing needs of the services in the welfare sector.

The Ministry of Education has embarked on preparing an action programme on the well-being effects of culture for the period 2010–2014. A draft programme will be completed by the end of 2009.

The Ministry of Education has initiated a development project aimed at improving service production. The project seeks to develop third sector expertise in the cultural, sport and youth sectors as a provider of well-being services.

## **Assessment of the projects**

Increasing productivity in the public sector, safeguarding the supply of labour, increasing co-operation between the public and private service sector, and improving the expertise of the third sector to organise well-being services are the topics referred to in the Finnish Implementation Report 2009 published by the Ministry of Finance. These are important topics. Health promotion of the labour force in the welfare sector is included in these projects. The aim is to safeguard and even improve the quality of welfare services, but the problems caused by the restructuring of the services by organising bigger municipalities and by increasing the amount of private services and the means to overcome these problems are not discussed.