



ESPN Thematic Report on minimum income schemes

Finland

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European Social Policy Network (ESPN)

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Summary

The Finnish income transfer system consists of three different parts: income-related social insurance, flat-rate basic security benefits administered by the Social Insurance Institution Kela, and last-resort minimum income protection (social assistance) that at present is administered by 317 municipalities. Social assistance consists of three parts that have different criteria. The basic part is more or less automatically paid to those clients who fulfil the formal criteria. The additional part covers special additional costs, and preventive aid is paid after careful means testing.

The problem in Finland is that in the longer run all the basic security benefits have lost their value in relation to the 60% poverty threshold. Poverty rates have sky-rocketed and the reduction impact has diminished since the early 1990s. However, when it comes to the development in the 2010s, the verdict is more positive: with the exception of study and child allowances, slight improvements have taken place – most notably so in basic unemployment benefits and basic pensions. Nevertheless, the improvements are so marginal that the additional part of social assistance must be paid out on top of the Kela-related basic benefits. Additionally, the value of basic benefits can be related to the minimum living costs determined by reference budget calculations for typical cases. In 2014, only the level of Guarantee Pensions (GPs) was at the reference budget line. The value of the full GP was 102% of the line, whereas the percentage for the other benefits hovered around 70%. When the general public was asked what the proper level of social assistance should be, the mean values given by respondents were about 30% higher than the actual level of assistance. Against this background, one could recommend that the Finnish government increase the level of basic security benefits; but given the current gloomy economic prospects and the deficits in the public budget, these improvements are not likely to take place.

To combat budget deficits, the Sipilä government has suggested cuts in benefits and the freezing of indexation, which would yield substantial savings in public spending. The freezing of the indexation of all basic benefits (except social assistance) would increase the gap between the poverty threshold and the level of Kela benefits. Would social assistance compensate for the inadequate level of other basic benefits? Gradually this trend would change the whole characteristic of the Finnish welfare system: there could be a gradual shift towards a more selective welfare state.

However, there may be other scenarios as well. The Finnish basic benefit system is scattered across many parallel and overlapping schemes. Consequently, many clients receive a number of benefits that aim at guaranteeing basic livelihood. When Kela begins to pay out social assistance (from the beginning of 2017) it may be possible to at least streamline the basic benefit systems. The government's idea to start experiments (2017–2018) on basic income may offer a fruitful platform for that.

Part I – Description of main features of the minimum income scheme

1 Governance arrangements

1.1 Levels of governance

The Finnish income transfer system consists of three different parts: income-related social insurance, flat-rate basic security benefits administered by the Social Insurance Institution Kela,¹ and last-resort minimum income protection (social assistance),² which at present is administered by 317 municipalities. Social assistance consists of three parts that have different criteria. The basic part is more or less automatically paid to those clients who fulfil the formal criteria. The additional part covers special additional costs, and preventive aid is paid after careful means testing.

The levels of governance and the degree of regulation vary between the benefit schemes in question. Administratively, unemployment issues are under the Ministry of Employment, whereas social services and social assistance are supervised by the Ministry of Social Affairs and Health. Basic social benefits (as specified later on) are paid by Kela, which is a statutory nationwide actor under the control of parliamentary trustees. Whereas the levels and criteria of Kela benefits are strictly based on national legislation, the main principles of social assistance are set by the Ministry of Social and Health Affairs (MSHA),³ although individual municipalities have a number of degrees of freedom in the delivery of additional and preventive assistance benefits. The decisions depend on local practices and municipal finances.

1.2 Delivery arrangements

Benefits from the basic income transfer schemes are paid by Kela, while delivery of social assistance is still in the hands of individual municipalities. However, substantial changes are under way. In March 2015, the Finnish parliament passed a bill stipulating that the basic part of social assistance will be centralised and transferred from municipalities to Kela (effective from 2017), whereas the responsibility for delivering additional and preventive assistance will remain at the local level. Since Kela takes care of other basic cash benefits – such as child allowances and other family-related benefits, housing allowances, disability benefits, sickness and minimum unemployment benefits – basic social assistance was considered to fit in that context well.

The Kela option opens up possibilities for better coordination – and possibly also for homogenisation – of the numerous forms of basic income transfer schemes, and thus it may be a step towards a more coordinated and better-functioning one-stop shop minimum income safety net. However, when it comes to the delivery of social and other services, the crucial question is how smoothly the client moves between Kela, the municipal social office and employment services.

1.3 Rights-based versus discretionary benefits

There is a strong legislative basis for all minimum income benefits. The Finnish Constitution (Section 19) declares that ‘those who cannot obtain the means necessary for a life of dignity have the right to receive indispensable subsistence and care. Everyone shall be guaranteed by an Act the right to basic subsistence in the event of unemployment, illness, and disability, during old age as well as at the birth of a child

¹ Kela (2015a).

² In the subsequent text, the terms ‘social assistance’ and ‘minimum income protection’ (MI schemes) are used as synonyms. The term ‘basic security benefits’ refers to Kela-based sickness, maternity, unemployment, invalidity, etc. benefits, and housing and study allowances.

³ Ministry of Social Affairs and Health (2015).

or the loss of a provider.⁴ Thus, there is a strong case for rights-based benefits. However, as indicated above, the strength of claim rights vary: while clients have strong claim rights for income-related unemployment benefit, Kela-related basic security benefits and basic social assistance, they have somewhat weaker claim rights for additional social assistance and the preventive part of social assistance, as these are discretionary.

Access to social and employment services have certain conditions as described in Section 2.2 of Part I.

2 Design of minimum income scheme

2.1 Level of benefit

The Act on social assistance⁵ stipulates that social assistance is a temporary income transfer targeted at households with insufficient income to cover basic expenses. In order to qualify for social assistance, the claimant is required to apply for all other social benefits. In practice, this means all the Kela-administrated benefits. When calculating benefit levels for social assistance, all income coming into the household is taken into consideration. Disability benefits, maternity grants, reimbursement of expenses and activity supplements to unemployment benefits do not diminish the assistance. Nor does work income of up to EUR 150 a month affect the benefit level.

The basic amount is the same in each municipality and it is intended to cover all necessary expenses (food, hygiene, clothing, healthcare, public transportation, media, telephone and hobbies). There will be a separate compensation for housing costs and some additional expenditure. The 2015 benefit formula provides EUR 485.50 a month for a single person and EUR 534.05 a month for a single parent. Other persons of at least 18 years of age get 85% of the above-mentioned amounts, and a child who is 18 years or older and lives with his/her parents gets 73%; a child aged 10–17 gets 70%; and a child under the age of 10 gets 63%. For families with children under 18 years of age, the basic amount is decreased by 5% from the second child, and by 10% for each child from the third child on. Thus the monthly amounts intended for living in the typical cases are as follows:⁶

- EUR 486 for a single person,
- EUR 696 for a single parent with one child (2 years old),
- EUR 413 for married/cohabiting recipient (EUR 826 for the household),
- EUR 354 for claimants living with their parents, and
- EUR 1,245 for a married couple with two children aged 7 and 14 years.

Benefits are net and are paid monthly; in principle, there is a monthly needs testing. There are no maximum limits for the duration of the spells. The level of social assistance is automatically adjusted by the annual national pension index.

The amounts presented above are only for the basic social assistance. The additional assistance covers expenses caused by child care, additional housing costs, expenditure on specific needs and support for individual coping. Preventive assistance is case sensitive and the amounts paid depend on the individual situation of the client and on municipal practices. Therefore, it is impossible to present any calculations on benefit levels in the case of additional and preventive social assistance. The sums can vary from dozens to thousands of euros.

⁴ Act 731/1999, Constitution of Finland.

⁵ Act 1412/1997, Laki toimeentulotuesta (Act on Social Assistance).

⁶ See Counter for social assistance.

2.2 Eligibility conditions

The decision on social assistance must be made not later than the seventh day of filing. In urgent cases, the decision shall be made on the same day, or on the next working day. The municipalities have had a hard time in meeting these time limits.⁷ Transferring social assistance to Kela might fix this: it will be interesting to see whether Kela as a nationwide and big organisation might be able to cater for fluctuating demand more flexibly than small and often less well-resourced municipalities. The applicant must also agree to speak to the municipal social worker no later than the seventh business day. Able-bodied applicants for social assistance or unemployment compensation must register with the Employment and Business Service Office (TEO). The amount of social assistance can be reduced by 20–40% if the claimant refuses to participate in job-seeking or activation measures. The continuation of the unemployment benefit requires the claimant to participate in drafting a work plan – and in actually following it. Refusal to accept the measures planned can lead to suspension of the benefit. If the person receives labour market subsidy and refuses (or interrupts) rehabilitative employment, his/her benefits can be suspended for 2 months.

As indicated above, there are certain eligibility conditions related to the claimant's income and assets. As a rule, all income is taken into consideration when calculating the level of benefits (however, see Section 2.1 above on the 'free' income up to EUR 150 a month). Whereas all assets that are necessary for living (own house/dwelling, furniture, equipment needed for work, etc.) are exempted – i.e. they do not reduce the benefit – savings in excess of a certain limit, bonds and dividends from investments are always counted as income.

There are no age-related conditions, but in practice social assistance is seldom given individually to children under the age of 18, because parents are obliged to support their children. Students might also be in need of social assistance. However, student benefits – study grants, housing supplements and even student loans (guaranteed by the government) – should be exhausted first. Nevertheless, case law on this emphasises that each student's situation must be considered individually.⁸

In Finland, social assistance is not based on the nationality of the client. However, there are some extra qualifying conditions. Asylum seekers staying in refugee centres are eligible for reduced amounts of benefit. EU citizens who have been in Finland for less than 3 months are not entitled to assistance: after 3 months they are entitled to additional social assistance on a temporary basis. Thus they are subject to stricter needs testing than are permanent residents. When foreign citizens have received permanent residence status, they are eligible for assistance on the same grounds as native Finns.⁹ The same goes for Kela benefits: once immigrants have residence permits and are considered to be living in Finland permanently, they become eligible for benefits. The cash reception allowance paid to asylum seekers is not provided by Kela: the reception centre provides that. There have been discussions on cutting the benefits of asylum seekers. It remains to be seen whether the government proceeds with this plan.¹⁰

2.3 Conditionality rules

Social assistance can be cut by 20–40% if the claimant refuses to participate in activation measures or job-seeking. Also, the basic social assistance paid to a claimant under 25 years of age who is not participating in employment or education can be reduced. The reduction can be 40% and the decision is valid for 2 months. If such a reduction is made, the social worker must prepare a plan for how to promote the claimant's independent living. Social workers have quite wide discretion on this, and

⁷ There have regularly been cases concerning this: see e.g. Parliamentary ombudsman case 2958/2014.

⁸ Ministry of Social Affairs and Health (2013).

⁹ Ministry of Social Affairs and Health (2013).

¹⁰ Helsingin Sanomat (2015a).

research shows that they are unwilling to take steps against young clients who are already in a difficult life situation.¹¹

2.4 Duration

Social assistance is not time limited: it is open for as long as eligibility conditions are met. The same goes for labour market subsidy, housing allowance and basic pensions; by contrast basic unemployment allowance, sickness benefits and study allowances are time limited.

2.5 Transitions

In Finland, there is a dual system of unemployment protection: 1) income-related benefits for 500 work days (about 2 years) for unemployment fund members; 2) for those unemployed who are not entitled to income-related benefits, there are two basic security benefits available from the Social Insurance Institution (Kela): basic unemployment benefit and labour market subsidy. The former is payable for 500 work days, and thereafter the means-tested labour market subsidy takes over. One may also get labour market subsidy from the beginning, if the criteria (e.g. working requirement) for the basic unemployment benefit is not met. In labour market subsidy there are no limits on the duration of the spell. Some social benefits, e.g. child and housing allowances and income support, are exempt from means testing. Nor is means testing applied during participation in employment-promotion measures.

The level of basic unemployment and other basic social benefits (see Section 3) is so low that in most cases persons living on these allowances are entitled to housing allowance and social assistance as well. Most often social assistance helps to pay for housing costs that exceed the approved maximum rents specified in the housing allowance system. Thus, in most cases social assistance is supplementary and is paid on top of basic social benefits, such as minimum unemployment, sickness, housing and family benefits. The problem with a structure that consists of a number of income-tested elements is that the marginal tax rates become high and form a clear disincentive to accept job offers, despite the exempted EUR 150 a month (or EUR 300 a month in housing allowance and unemployment benefits).

In sum, after the expiration of income-related insurance-based allowances, the client falls back on basic benefits, which in most cases are complemented by social assistance. Thus, rather than being fully transitory, the Finnish minimum income system is simultaneous: the claimant usually gets a number of basic security benefits combined with social assistance (see Section 3 of Part I). In fact, there is a very strong overlap between the basic benefits and social assistance: 94% of households receiving social assistance also receive some Kela-administered basic security.¹²

3 Links with other social benefits and services

The Finnish basic security system that was presented in the 2009 report on minimum income schemes¹³ remains more or less intact. The main structure has not changed, but there have been amendments and some structural changes. One substantial change has been the introduction of the Guarantee Pension (GP) in 2011. The GP is strictly tested against all other pension income and aims at poverty alleviation and guaranteeing the minimum safety net.¹⁴

Minimum sickness benefit (EUR 24.02 a day, 6 days a week) is payable to those sick persons who do not have income (home-makers, students, etc.). There is a waiting period of 55 days to qualify for the allowance.¹⁵ Usually that period is covered by

¹¹ Palola (2014).

¹² Adequacy of Basic Social Security of Finland 2011–2015.

¹³ Ruoppila and Lamminmäki (2009).

¹⁴ Kela (2015b).

¹⁵ Kela (2015c).

social assistance. The minimum parental allowance is paid at the same rate (EUR 24.02).

For those unemployed people who are not entitled to income-related benefit, there are two Kela-administered basic security benefits available: basic unemployment benefit and labour market subsidy. The amount of these benefits is EUR 32.80 a day (5 days a week). The amount is increased for each dependent child under the age of 18: EUR 5.29 a day for one child, EUR 7.77 for two children and EUR 10.02 for three children or more. Without child increments, the amount of the labour market subsidy is EUR 705 a month.¹⁶ Since the release of the 2009 minimum income report, an important change has come about. Since 2013, labour market subsidy is no longer tested against the spouse's income: only the claimant's own income is taken into consideration when defining the benefit amount.

The main child-related cash transfer is the universal child allowance. The allowance is payable to every child under the age of 17. The amount of the benefit paid depends on the number of children, and single parents get higher benefits for each child. The monthly amounts are as follows: first child – EUR 95.75; second child – EUR 105.80; third child EUR 135.01; fourth – child EUR 154.64; and fifth child (and subsequent) – EUR 174.27. For single parents, a special supplement of EUR 48.55 is paid for each child.¹⁷ Child home care allowance and care supplements are paid for children cared for at home (see Section 3.2 of Part I).

As a rule, many of those people whose main income consists of one or more of the above-mentioned basic benefits also receive housing allowance to compensate for housing expenses. On average, housing allowance covers about 50% of the recipient's housing costs, and often the rest is applied for from the social assistance system. Also the levels of the basic benefits are so low that social assistance is payable on top.

The amount of social assistance varies, depending on the costs of housing. In order to capture the regional variation, separate calculations for households living in small municipalities, medium-sized towns and the Helsinki capital area are presented in Table 1. As can be seen, the level of disposable income does not necessarily change when moving from a small municipality to the Helsinki region; but the levels of social assistance covering housing costs vary between municipalities. The table also illustrates how various basic benefits and social assistance are interwoven.

To qualify for unemployment benefits and social assistance, one needs to register with the TEO, which issues a 'labour policy statement' for the unemployment fund or Kela on the claimant's eligibility for unemployment benefit.¹⁸ However, registration is not needed for access to services.

As indicated above, two different agencies in Finland are responsible for paying out employment benefits: the unemployment funds and Kela. The benefits system is also scattered across a number of overlapping schemes. For example, Kela pays housing allowance to 52% of recipients of basic unemployment benefit and labour market subsidy. In addition, about 20% of recipients of basic unemployment benefit and 32% of recipients of labour market subsidy also receive municipal social assistance.¹⁹

Thus, the basic income maintenance and services systems are scattered, and a number of overlapping benefit systems aim at the same goal. There are more voices demanding changes in the 'jungle' of the income protection system in order to improve coordination between different schemes, to abolish income traps and diminish non-take-up rates.²⁰ The transfer of basic social assistance to Kela in 2017 may somewhat improve the situation and may perhaps facilitate homogenisation of basic income protection schemes.

¹⁶ Kela (2015d).

¹⁷ Kela (2015e).

¹⁸ TE-palvelut (2015).

¹⁹ Calculated from Kelasto (2015).

²⁰ See e.g. Sitra (2015).

Table 1: Income formation of an unemployed household with four different family types and four levels of housing costs in 2015 (EUR a month)²¹

Form of housing	Income item	Single dweller	Single parent, one child	Couple	Couple, two children
	Unemployment allowances	705	819	1,410	1,745
	Child benefits	0	144	0	202
	Child maintenance allowance	0	155	0	0
	Taxes	120	141	240	310
	Net income	585	977	1,170	1,636
Rental dwelling, small municipality	Housing costs	420	602	557	756
	Housing support	290	422	228	447
	Social assistance	30	43	0	120
	Disposable income	905	1,442	1,398	2,203
	Disposable income after housing costs	486	840	841	1,447
Rental dwelling, medium-sized city	Housing costs	514	690	661	859
	Housing support	329	480	286	529
	Social assistance	86	73	30	140
	Disposable income	1,000	1,530	1,487	2,306
	Disposable income after housing costs	486	840	825	1,447
Rental dwelling, Helsinki metropolitan area	Housing costs	650	812	833	1,031
	Housing support	394	565	371	667
	Social assistance	156	110	116	175
	Disposable income	1,135	1,652	1,658	2,478
	Disposable income after housing costs	486	840	825	1,447

3.1 Components covered by minimum income schemes

As described in Section 1.1 above, the Finnish social assistance system has three parts, each covering different needs:

- Basic social assistance covers, among other things, expenditure on food, clothing, minor healthcare, personal and domestic cleanliness, local transport, magazine subscriptions, TV licences, phone, leisure and recreational activities, necessary housing expenses, such as rent or pay, water, heating, electricity, and home insurance.
- Additional social assistance includes specific expenditure, such as child care expenses, the extra cost of housing, costs for special needs or circumstances (severe illness, as well as the cost of children's hobbies).
- The criteria for preventive social assistance are defined by individual municipalities. The purpose is to promote individual and family-independent living and to prevent social exclusion. Preventive social assistance can be granted, for example, to deal with debt or to mitigate the difficulties caused by a sudden deterioration in the economic situation.

3.2 Other means-tested benefits

The Finnish labour market subsidy (*työmarkkinatuki*), child home care allowance (*kotihoidontuki*, cash for care), housing allowance and Guarantee Pension (*takuueläke*) are to some extent tested against other income, but in the strict sense they are not means tested. Whereas home care allowance is not primarily intended for poverty alleviation, labour market subsidy and Guarantee Pension have this task in the

²¹ Adequacy of Basic Social Security of Finland 2011–2015, p.57.

case of the long-term unemployed and the elderly population, respectively. When it comes to home care allowance, and labour market subsidy in particular, recipients of these benefits usually get housing allowances and social assistance, as Table 1 shows.

Labour market subsidy provides basic financial assistance for unemployed job-seekers who enter the labour market for the first time, or who otherwise have no recent work experience, and for long-term unemployed persons who have exhausted their 500-day eligibility for the basic or earnings-related unemployment allowance. The labour market subsidy is an income-tested benefit: any other income that the unemployed person has will decrease the benefit level. If the unemployed person lives with her/his parents, the parental income is taken into consideration when calculating the level of the subsidy. Labour market subsidy can be paid for an indefinite period.²²

Statutory home care allowance is divided into two parts: care allowance (*hoitoraha*), which is not income tested; and care supplement (*hoitolisä*), which is. Care allowance is paid separately for each eligible child at a rate of: EUR 342.53 a month for one child under 3 years of age; EUR 102.55 a month for each additional child under 3 years of age; and EUR 65.89 a month for a child over 3 years of age but under school age. Care supplement depends on the size and income of the family. The maximum amount of care supplement is EUR 183.31 a month. It is paid for one child only. Income exceeding the income limit (EUR 1,160 a month for a family of two and EUR 1,700 for a family of four) will reduce the full amount of care supplement and after certain income limits (EUR 2,753.96 and EUR 4,020.31 a month for a family of two and four, respectively) the benefit expires. In addition to these statutory care benefits, individual municipalities can pay a municipal supplement, the amount of which varies between municipalities.²³

In Finland, the housing allowance system consists of four different parts – all administered by Kela. General housing allowance is intended for low-income households. It is available for both rented and owner-occupied homes. The amount of housing allowance is determined by the number of adults and children in the household, the municipality in which their home is located (in order to take into consideration the huge variation in housing costs between different municipalities) and their monthly income before tax. Housing allowance is usually granted for one year in advance. The three other housing allowance schemes are tailored to some specific groups: Housing Allowance for Pensioners, Supplement for Students and Housing Assistance for Conscripts.²⁴ The government plans to standardise the general housing allowance and the housing allowance for pensioners. That might mean cuts of up to EUR 100 for some pensioners. And that might in turn mean a growing need for social assistance.²⁵

The purpose of the Guarantee Pension is to provide all residents in Finland with a minimum pension (EUR 746.57 a month). However, the GP is tested against other pension income. A full Guarantee Pension is payable only to those with no other pension income. Other pension income is deducted in full (100% deduction) from the full amount of the Guarantee Pension.²⁶

3.3 Passport to other services and benefits

The governance structure of various schemes does not always provide a valid passport to the plethora of other services and benefits. For example, responsibility for the activation plan falls on two actors. If the unemployed person receives labour market subsidy from Kela, initial responsibility for the activation plan rests with the TEOs, whereas the local municipality is responsible for the plan if the client receives social assistance. To qualify for unemployment benefit and social assistance, one must register with the TEO, which issues a 'labour policy statement' on the claimant's

²² Kela (2015f).

²³ Kela (2015g).

²⁴ Kela (2015h).

²⁵ See e.g. Helsingin Sanomat (2015b).

²⁶ Kela (2015i).

eligibility for unemployment benefit. Registration is not needed for access to services. (See also Table 1.)

From the beginning of 2015, the Law on multi-sectoral employment promotion services²⁷ has compelled the TEO, the municipalities and Kela to cooperate by evaluating the claimant's needs for services and activation measures, as well as in drafting the employment plan. The coordination is more effective and functions better in some municipalities than in others. In its government programme the Sipilä centre-right cabinet (nominated on 29 May 2015) pays special attention to creating seamless service chains for the unemployed.

Finland also offers quite a wide range of social and health services. Responsibility for organising such services rests with the municipalities. The services are provided for everyone (also to those who are covered under the Occupational Health Care Act), but there are client fees, which are fairly high. However, municipalities must reduce or waive fees for social care, and must determine healthcare fees according to the client's ability to pay, if charging will undermine the income or statutory maintenance obligations of clients or their families. Clients may also receive social assistance for paying social and health services.

²⁷ Act 1369/2014, Laki työllistymistä edistävästä monialaisesta yhteispalvelusta (Act on Employment Promoting Multi-Sectoral Cooperative Services).

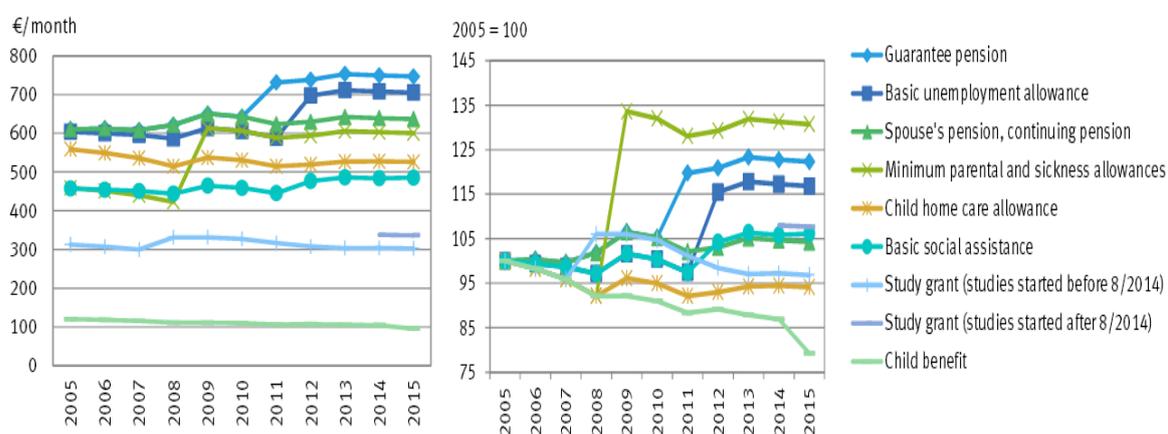
Part II – Analysis of minimum income schemes

1 Assessment of adequacy, coverage, take-up and impact

1.1 Adequacy

Since 2010, Finnish legislation has required the Ministry of Social Affairs and Health to commission an evaluation on the adequacy of basic security in Finland. The assessment has to be done every four years. The second report was released in spring 2015.²⁸ In it, the adequacy of all basic benefits was evaluated using a number of different measures: looking at the real development of benefits, using typical family calculations, relating benefits to poverty lines, using the reference budget method to determine minimum costs, and asking the general public their opinion on what the proper level of benefits should be. The main developmental patterns in basic security benefits are depicted in Figure 1.

Figure 1: Real development of basic social benefits in Finland 2005–2015



Source: *Adequacy of Basic Social Security of Finland 2011–2015*, pp.42–43.

The figure reveals a dual pattern. On the one hand, there are benefits – such as child allowances and study grants – that have lost their value both in absolute terms (the left-hand panel) and in relation to 2005. On the other hand, there are improvements in basic pensions, unemployment allowances, and some improvement also in the level of the basic amount of social assistance.

A complementary way to evaluate the adequacy is to relate benefits to the poverty line, as is done in Table 2. The problem in Finland is that, in the longer run, all the basic security benefits have lost their value in relation to the 60% poverty threshold. During the 2000s, only basic pensions (mostly due to the introduction of the Guarantee Pension in 2011) and sickness minimum daily allowances preserved their relative position vis-à-vis the poverty threshold. However, when it comes to the development in the 2010s, the verdict is more positive: with the exception of study and child allowances, slight improvements have taken place, most notably in basic unemployment benefits and basic pensions. Nevertheless, the improvements are so marginal that the additional part of social assistance must be paid out on top of the Kela-related basic benefits. Against this background, one might recommend that the Finnish government should increase the level of basic security benefits; however, given the current gloomy economic prospects and the deficits in the public budget, such improvements are not likely to occur. The central government budget has been in deficit for 8 consecutive years (-3.3% in 2014) and public debt has reached 60% of

²⁸ Adequacy of Basic Social Security of Finland 2011–2015.

GDP. Furthermore, economic growth has been sluggish. From September 2014 to September 2015, GDP decreased by 0.6%.²⁹

The committee of ministers of the Council of Europe agrees with this recommendation: the European Committee of Social Rights concluded unanimously that there has been a violation of articles 12.1 and 13.1 of the European Social Charter. The level of all social security benefits, as well as the level of social assistance, has fallen below 40% of median equivalised income – the absolute minimum that Finland has committed itself to.³⁰

Table 2: Relation of minimum social benefits to 60% poverty line in Finland, 1995–2014

Year	BUNE	NP/GP	HCALL	SMDA	SOCA	STUA	CHIA
1995	58.0%	69.2%	77.0%	47.5%	55.4%	69.2%	45.0%
2000	50.3%	61.0%	48.1%	30.4%	47.6%	55.0%	36.6%
2005	44.8%	55.0%	41.7%	34.8%	41.3%	47.0%	31.0%
2006	44.1%	54.5%	40.6%	33.9%	40.7%	49.0%	30.2%
2007	42.3%	52.8%	38.4%	32.1%	39.2%	46.4%	28.6%
2008	41.0%	53.2%	36.3%	30.3%	38.0%	43.9%	28.9%
2009	42.0%	54.8%	37.2%	42.0%	39.2%	46.9%	28.5%
2010	42.0%	53.3%	37.3%	42.0%	38.1%	45.6%	27.7%
2011	40.9%	59.2%	36.3%	40.8%	37.0%	44.1%	26.9%
2012	48.7%	61.4%	37.6%	42.2%	39.6%	43.0%	27.2%
2013	48.8%	62.4%	37.8%	42.7%	40.3%	42.2%	26.2%
2014	48.6%	62.1%	37.5%	42.5%	40.1%	41.7%	26.4%

BUNE = Basic unemployment daily allowance; **NP/GP** = National pension/Guarantee Pension (2011–); **HCALL** = Home care allowance; **SMDA** = Sickness minimum daily allowance; **SOCA** = Social assistance; **STUA** = Study allowance; **CHIA** = Child allowance.

Source: Honkanen (2015a; 2015b).

Additionally, the value of basic benefits can be related to the minimum living costs determined by reference budget calculations for typical cases. In 2014, only the level of Guarantee Pensions was at the reference budget line. The value of the full GP was 102% of the line, whereas the percentage for the other benefits hovered around 70%. When the general public is asked what the proper level of social assistance should be, the mean values given by respondents were about 30% higher than the actual level of assistance.³¹

To combat budget deficits, the Sipilä government has suggested cuts in benefits and the freezing of indexation, which would yield substantial savings in public spending. The freezing of the indexation of all basic benefits (except social assistance) would not reverse the trend depicted in Table 2 and, consequently, the gap between the poverty threshold and the level of Kela benefits would grow. An interesting question is what would happen in the distribution of labour between social assistance (not frozen) and other basic security benefits (frozen). The most probable scenario is that social assistance would compensate for the inadequate level of other basic benefits. Gradually this trend would change the whole characteristic of the Finnish welfare system: there could be a gradual shift towards a more selective welfare state.

However, there may be other scenarios as well. As shown earlier, the Finnish basic benefit system is scattered across many parallel and overlapping schemes. Consequently, many clients receive a number of benefits aimed at guaranteeing basic livelihood. When Kela begins to pay out social assistance (from the beginning of 2017)

²⁹ <http://ec.europa.eu/eurostat/cache/infographs/economy/desktop/index.html> According to the forecast by the Ministry of Finance, the debt ratio will continue to rise in the next few years, albeit at a slowing rate. See, for example, Economic Survey Autumn 2015, the Ministry of Finance publications – 32 c/2015, <http://vm.fi/en/economic-forecasts> On this page there are also links to other forecasts.

³⁰ Resolution CM/ResCGS(2015)8, Finnish Society of Social Rights v. Finland, Complaint 88/2012.

³¹ Adequacy of Basic Social Security of Finland 2011–2015, p.105.

it may be possible at least to streamline the basic benefit systems. The government's idea of starting experiments (2017–2018) on basic income may provide a fruitful platform for that.

1.2 Coverage

In principle, all permanent residents in Finland are covered by basic security benefits. Coverage under Kela-administrated benefits is more or less strictly stipulated in legislation and mimics the principles of universal people's insurance. Minimum income protection based on social assistance is also available for all permanent residents, but stricter qualifying criteria sift the number of applicants, thus reducing the actual take-up rates.

1.3 Take-up

One can assume that the non-take-up rate is not a very serious problem in Kela-related benefits. However, it goes without saying that there are also problematic situations and borderline cases during transitory periods that do not fit into defined legislative categories. A person may be incapable of work but not sick enough to qualify for sickness benefit or invalidity pension. The long waiting period (55 days) for basic sickness benefit may rule persons out of the benefits. Furthermore, the specific characteristics of the Finnish sickness benefit system may create drop-outs. Sickness allowance is payable for a maximum of 300 working days, but in order to receive allowance again for the same illness, the claimant must have been fit for work for at least a year. Also sanctions in the unemployment benefit systems may exclude the unemployed from benefits. It is estimated that there are 23,000 to 28,000 individuals who, for one reason or another, lack income.³²

At the end of 2014, in all 384,000 people were receiving unemployment benefits. Of these, 78% were not participating in any activation measures, and 22% were activated in some non-waged employment services. The share of those who neither receive unemployment benefits nor participate in activation is hard to evaluate. As a rule, all the registered unemployed and the unemployed in activation services have some unemployment benefit. However, there are thousands – or even tens of thousands – of people who are without benefits due to various restrictions and sanctions in the benefit system (e.g. those not in education, employment or training (NEET), persons with health problems, etc.). In most cases, these individuals or their families receive housing benefit or social assistance. The share of such persons is hard to determine: a qualified guess would be 1–5%.

It is difficult to evaluate the level of non-take-up in such means-tested programmes as social assistance. There are only rough estimations, which vary from 25% to 50% non-take-up.³³ The reasons vary from avoiding the stigma attached to social assistance to an inability to apply, e.g. due to mental illness or lack of information. The transfer of social assistance may reduce the non-take-up rates.

1.4 Impact

International comparisons show that the poverty- and poverty-gap-reducing impact of the minimum income scheme is, comparatively speaking, not very strong in Finland. The effect is much stronger in the Netherlands and Sweden, for instance.³⁴ However, the picture of the effectiveness of the Finnish system depends on whether we use the 40%, 50% or 60% poverty line. Naturally, the impact is greatest on the 40% line. Poverty before social transfers among social assistance clients runs at 30%, whereas the post-assistance rate is 10%. Thus, the poverty-reduction rate is 67%. For a poverty line of 50%, the corresponding figures are 51%, 32% and 37%; and for a

³² Honkanen (2015a), (2015b).

³³ Soste (2014).

³⁴ Figari et al. (2009).

60% line – 73%, 61% and 16%, respectively. Poverty rates have sky-rocketed, and the reduction impact has diminished since the early 1990s.³⁵

2 Links to the other two pillars of active inclusion

2.1 Inclusive labour markets

The share of those participating in active and inclusive labour market measures varies according to the type of basic security benefits. In 2014, 11.2% of recipients of fund-based benefits, 16.0% of recipients of basic daily allowance, and 29.4% of recipients of labour market subsidy were involved in some form of activation. Participation by the recipients of social assistance is harder to evaluate. Some social assistance recipients are included in the aforementioned categories.³⁶ The activation rate declines somewhat with the duration of the receipt of minimum income benefits. In principle, there are a number of sanctions to encourage recipients to engage in activation and employment-promoting measures; but during high levels of unemployment, the sanctions are not always used.

During the deep economic depression of the mid-1990s, the population share receiving social assistance was as high as 15%. In 2008, the share was down to 6%. The post-2008 recession has again increased the rate of receipt to close to 10% of the adult population. In the early 1990s, 12% of recipients of social assistance received the benefits for longer than a year. Until now the share of long-term recipients has been about 30%.³⁷

The problem in the Finnish minimum income protection is that in most cases there is a layer of several income-tested benefits on top of each other. An increase in wages will eat up social assistance, diminish housing allowances and lead to the loss of labour market subsidy. Therefore, the effective marginal tax rates may be very high, hovering around 60–70% – or in some cases even more.³⁸ The introduction in 2014 of the exempt income of EUR 300 a month for earnings in unemployment and housing benefits improved the profitability of accepting a job offer. However, there is much more to do to make work pay.

2.2 Access to quality services

In principle, able-bodied claimants of minimum benefits should register as job-seekers and participate in employment-promoting activities. In fact, there is a multitude of different services available, and there are also financial carrots, plus various sticks in the form of sanctions, that are used to direct recipients to services. However, the crude reality is that, during the present high level of unemployment, the system does not work optimally. Furthermore, coordination between the different actors providing benefits and services should be far more seamless and effective.

Although it is hard to determine, client fees may prevent people from accessing social and health services – or at least many need to turn to social assistance. Even though fee reductions or waivers should take priority in terms of granting social assistance, some clients end up in economic and legal problems because of client fees. If clients fail to pay client fees for social and health services, they may have to pay interest and the sums may be subject to a debt-recovery enforcement order without a court ruling. Also medicine costs may be high, and some people rely on social assistance in order to cope with the cost of sickness.³⁹ Sickness and low income tend to go together.

³⁵ Kuivalainen (2013), p.70.

³⁶ Honkanen (2015b).

³⁷ Kuivalainen (2013).

³⁸ Adequacy of Basic Social Security of Finland 2011–2015, pp.50–51.

³⁹ Aaltonen et al. (2015).

3 Summary table

Assessment of minimum income (MI) scheme(s)				
	Assessment			Evolution over time ⁴⁰
Adequacy How adequate is the level of MI benefits?	Adequate	Somewhat inadequate	Very inadequate	
		X		P
Coverage How extensive is the coverage of people in need?	Fairly comprehensive	Partial	Very limited	
	X			P
Take-up How complete is the take-up of MI benefits by those entitled to them?	Fairly complete	Partial	Quite limited	
		X		P
Impact on Poverty Reduction (1) What is the impact of MI provision in reducing the at-risk-of-poverty rate?	Strong impact	Partial impact	Very limited impact	
		X		SQ
Impact on Poverty Reduction (2) What is the impact of MI provision in reducing the at-risk-of-poverty depth?	Strong impact	Partial impact	Very limited impact	
		X		N
Link to Active Labour Market Policy (ALMP) In practice, how effective are the links between MI scheme(s) and ALMP measures?	Very effective links	Mediumly effective	Very ineffective	
		X		SQ
Link to Adequate Services In practice, how effective are the links between MI scheme(s) and access to adequate services?	Very effective links	Mediumly effective	Very ineffective	
		X		SQ

⁴⁰ P (Positive evolution), SQ (Status Quo), N (Negative evolution).

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