



ESPN Thematic Report on Access to social protection of people working as self-employed or on non-standard contracts

Finland

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Summary

If we focus on employees, the Finnish story of development of standard and non-standard employment is one of continuity. Some 80% of males and 70% of females have permanent full-time jobs. Part-time employment has only marginally increased during the last two or three decades. However, if we look at development patterns in self-employment, we find a clear increase since the early 1990s.

In principle, the Finnish social security system is universal – whether for both benefits in kind and benefits in cash - and it does not distinguish between employees and the self-employed. Hence, at least in principle, all forms of employment are covered. Furthermore, benefits calculations are mainly homogenised. For example, pensions are calculated more or less in the same way, but due to differences in careers and incomes, which form the basis for pension calculations, outcomes in terms of the actual level of pensions are significantly lower among the self-employed than among employees.

Self-employment being characterised by odd working hours, the self-employed have difficulties in reconciling work and family life, their income stream is more sporadic, their income levels are lower and holidays shorter, compared to employees. In terms of relative income measures, the incidence of poverty among the self-employed is higher than among employees (more than 10% vs. less than 5%). However, there are no differences in experienced financial difficulties, health status or in the degree of life satisfaction.

The coverage of social benefit schemes may be universal, but there are holes in the safety-net. In some cases the self-employed are voluntarily insured against work accidents and unemployment, but while all employees are insured against accidents at work, the rate is much lower among the self-employed. Some 90% of full-time employees have income-related unemployment insurance, whereas among the self-employed it is only about 20%. Some free-lancers, academics and creative persons living on grants cannot obtain income-related unemployment insurance. In the case of unemployment, the self-employed and other persons without full coverage are entitled to the 'basic benefits' paid by the Social Insurance Institution of Finland (*Kela*). Oftentimes differences in benefits levels are substantial.

Recommendations are:

- the government should set up a special expert group to analyse the extent to which the coming social and healthcare reform will change the prevailing mode of labour contracts.
- possibilities for expanding the coverage of income-related unemployment benefits should be investigated – including in relation to many free-lancers and persons living on academic and artistic grants, who lack access to proper unemployment protection
- A 'combination insurance' making it possible to simultaneously insure income from paid labour and from self-employment should be implemented.

1 Context: self-employment and non-standard work relationships in the national economy and labour market

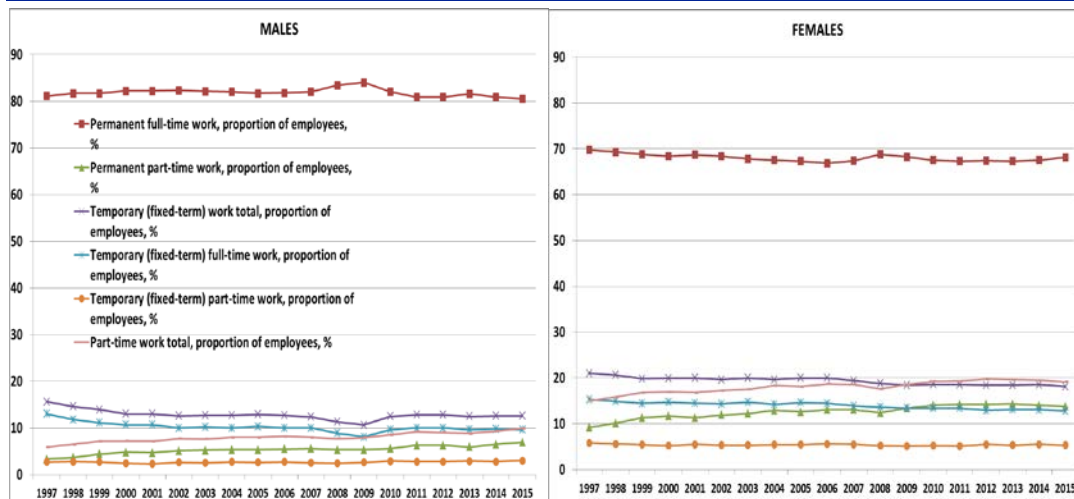
1.1 Development of self-employment and non-standard employment in Finland.

Historically, both male and female employment rates have been very high in Finland. For example, the female participation rate in 1960 was 41% in Finland, which was the highest level in the Western world. The OECD / EEC / Scandinavian average was less than 30% (OECD 1982: 32). By 2015 the Finnish labour force participation rates were more

mediocre: 77.4 for males, 74.4 for women and 75.9 percent for the whole population. The corresponding figures for the OECD were 79.7, 63.0 and 71.3, respectively (OECD 2016)¹.

In contrast to many other countries, Finnish employment has been based on full-time and permanent jobs that correspond to 80% among males and to 70% among females. The rates have been rather stable during the last decades. However, since the economic crisis of 2008, the share of permanent full-time jobs has somewhat decreased and consequently, the share of part-time employment has increased, to 19% for women, 10% for men and 15 for all (Figure 1), which is somewhat lower than the OECD average (17%).

Figure 1. Employees (% of employees) by the type of employment and gender in Finland 1997-2015. (Statistics Finland 2016).

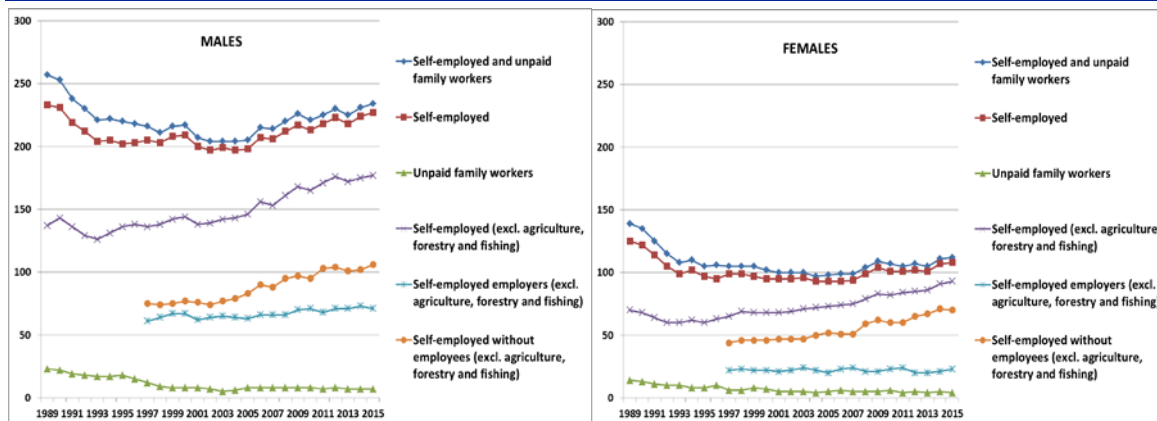


Thus, the Finnish employment pattern in dependent labour is still strongly based on full-time and permanent jobs. The picture is one of stability rather than of change. A complementary picture can be seen by looking at the development patterns in self-employment (figure 2). Self-employment in Finland has been dominated by the relatively high number of farmers, whose share of employment has dramatically diminished, which is reflected in the two upper lines in Figure 2. There was a decrease of 50,000 persons (23,000 males and 27,000 females) in self-employment from 1989 to 2015. If we exclude farmers and their unpaid family workers from the numbers, an increase of 60,000 persons can be traced. The increase has mainly taken place in one-person enterprises (jobs data available only after 1997). Furthermore, the expansion of self-employment has been more rapid among men (40,000) than among women (23,000). There is also an occupational divide: whereas 75% of the service sector self-employed are females, 95% of the self-employed in construction, transportation and industry are males². In 2015, the total number of self-employed (346,000) was 14% and the number of non-agricultural entrepreneurs (281,000) 12% of total employment. The share of bogus self-employment is rather limited: approximately 1,500-12,000 persons³, which is 0.5-4.3% of non-agricultural self-employment.

¹ OECD, Labour Force Survey, OECD, Paris, 1982; OECD, OECD, https://stats.oecd.org/Index.aspx?DataSetCode=LFS_SEXAGE_I_R. [Accessed the 7th December, 2016.].

² TEM, Selvitys työttömyysturvajärjestelmän muutostarpeista palkkatyön ja perinteisen yrittäjyyden välimaastossa. [Ministry of Economic Affairs and Employment, Report on needs to reform the unemployment protection system in the intersection of paid labour and traditional self-employment] Helsinki 2016, p. 10.

³ Jokinen, E., Social Pillar – Quantifying atypical employment in the EU Member States. Finland. European Commission. 2016.

Figure 2. The number (1,000) of self-employed in Finland 1989-2015. (Statistics Finland 2015)

The extent to which the self-employed are at greater or lesser risk of poverty or social exclusion totally depends on the measures used. According to the relative income-based measure (poverty line set at 60% of the equalised median income) poverty risk among the self-employed is 13%, which is the same as the poverty risk among the total population (12.5%) but much higher than the poverty risk for employees (2.2%).⁴ However, if we use self-rated economic status as the indicator of low income, the story is somewhat different. Whereas 11.7% of the self-employed say that they have problems coping on their present income, the share among employees is 13.1%. In subjectively rated health status there are no major differences: 6.1% of the self-employed rate their health as bad or very bad, while the share is 4.5% for the employees and 4.8 for the whole population. The numbers indicate that the self-employed in Finland are not a group exposed to poverty and social exclusion to a greater extent than the rest of the population. The overall life satisfaction seems to be high among the self-employed. On a scale of 0 to 10 (0 = very dissatisfied; 10 = very satisfied), the Finnish self-employed rate their life satisfaction at 8.1, those working for their family business on 8.4 and employees on 8.0.⁵

1.2 Measures to foster self-employment

There are some measures to foster self-employment and to help would-be entrepreneurs establish their activities. The fostering takes two forms: startup grants and entrepreneur training.

The aim of the **start-up grant** is to provide a secure income stream during the initial period of entrepreneurial activities. The grant is divided into a basic grant that amounts to EUR 32.68 a day and a discretionary supplementary grant (that must not exceed 60% of the start-up grant) determined by the *TE* Employment Office. The duration of the grant is limited to 18 months. To qualify for the grant, the claimant must be an unemployed jobseeker or be starting as a full-time entrepreneur after a period in paid employment, education or domestic work. The entrepreneurship must be full-time, the person must have adequate skills for the intended business, the grant must be necessary to start the business, and the business must have the potential to become profitable after the termination of the grant. The start-up grant is paid by the *TE* Office⁶. On basic income, see section 1.3. below.

⁴ Statistics Finland, 2017. Tulonjakotilasto [verkköjulkaisu]. Sosioekonominen asema ja pientuloisuus. [Statistics on income distribution. Socio-economic status and income]. Helsinki: Tilastokeskus [Accessed the 21st January, 2017].

Saantitapa: http://www.stat.fi/til/tjt/2013/01/tjt_2013_01_2015-03-20_kat_005_fi.html

⁵ The figures are based on the authors' own calculation on the basis of the European Social Survey (ESS).

⁶ TE-palvelut/TE-Services, http://www.te-services.fi/te/en/employers/for_entrepreneurs/services_new_entrepreneurs/startup_grant/index.html [Accessed the 7th December, 2016]

Entrepreneurial Training is available for those who are considering becoming an entrepreneur, wish to start or have started their own business. Vocational training for entrepreneurs is organised as labour market training.

1.3 Measures aimed at extending social protection to self-employed non-standard workers

As indicated in Annex 1 and Annex 2 the social security system in Finland is largely universal. For non-standard employees and self-employed persons the most problematic aspect is unemployment insurance. Those self-employed who combine income from self-employment with paid labour often fall between different rules in unemployment legislation for employees and the self-employed. Benefits may be suspended or denied altogether if the labour market office estimates that an unemployed person could get satisfactory earnings from self-employment.

In order to correct these problems the Minister of Labour, Mr. Jari Lindström, nominated in June 2016 an expert group to evaluate how to improve unemployment protection among the self-employed and non-standard workers. Three main task of the group was to make suggestions on how to create income-security for those persons who combine part-time jobs with part-time self-employment. In its report delivered 15 December 2016 the expert group suggested that a new unemployment insurance form – combination insurance – should be implemented. Those self-employed who combine paid labour and self-employment could insure both their wages and income from self-employment. Thus the non-coverage problems linked to those unemployed who have combined part-time work with part-time self-employment could be eliminated.⁷ The government is discussing the proposal and will possibly, in the course of 2017, carry out changes in legislation.

The Juha Sipilä government (nominated on 29 May 2015) wanted to start a basic income experiment to see if basic income would improve economic security and social protection among the precarious workforce, be it self-employed or people in non-standard employment contracts. The experiment started on 1 January 2017 with 2,000 randomly selected unemployed receiving benefits from the Social Insurance Institution of Finland (*Kela*). The experiment will also show if unconditional benefit will enhance self-employment. In the present system there are no possibilities to use unemployment benefits while starting one's own enterprise. The only option is the start-up grant (see section 1.2.)

There are policy debates and initiatives to extend coverage and improve the level of benefits for the self-employed and to make their social protection comparable to that of employees⁸. For instance, work accident insurance is voluntary for the self-employed, and the coverage is 70-80% among the self-employed while it is 100% among employees. The self-employed can themselves decide on the level of social security contribution paid for pension purposes. Often the contribution is set as low as possible, which may have detrimental consequences. Since the income, from which the social security contribution is collected, forms the basis for calculations of other social benefits, in many cases the self-employed are inadequately insured against old-age, sickness, work accident, pregnancy, and unemployment.⁹

There have also been discussions on zero-hour contracts and seasonal workers. A citizens' initiative on 4 December 2015 followed a report made for the Ministry of Economic Affairs

⁷ TEM , Selvitys työttömyysturvajärjestelmän muutostarpeista palkkatyön ja perinteisen yrittäjyyden välimaastossa. [Ministry of Economic Affairs and Employment, Report on needs to reform the unemployment protection system in the intersection of paid labour and traditional self-employment] Helsinki 2016.

⁸ Arola, J. & Hackman I., Väliin pudotetut. Miten meistä tehtaillaan yksinyrittäjiä? [Thrown in a hole. How they make us into self-employed?] Docendo, Jyväskylä, 2016.

⁹ Federation of Finnish Enterprises, Yrittäjän sosiaaliturva [Social security for the self-employed] <https://www.yrittajat.fi/yrittajan-abc/yrittajan-sosiaaliturva/yrittajan-toimeentuloturva/tyokyvyyttömyys/muutos-yrittajan> [Accessed the 7th December, 2016]

and Employment¹⁰ and proposed a ban on zero-hour work contracts, as well as the introduction of mandatory minimum working hours. More research has been called for. There is also a view that the Employment Contracts Act can already be interpreted in such a way that zero-hour contracts can be declared illegal since to fulfil the criteria for an employment contract an employer must offer at least some work (Paanetoja 2015a). Following discussions in the media, the Ministry of Economic Affairs and Employment ordered a report on the employment status of seasonal workers. The report proposed that all foreign wild berry pickers should be officially employed (Wallin 2014). The proposal was found difficult to coordinate with the existing definition of employment, where it is sometimes hard to clearly distinguish between dependent employment, different forms of self-employment and other non-standard work. However, an information desk for foreign berry pickers was set up by the Ministry on 21 July 2014 (Paanetoja 2014).

2 Description and assessment of social protection provision for the self-employed and people employed on non-standard contracts

2.1 Description of social protection provisions for the self-employed and people employed on non-standard contracts

In Finland the features of an employment relationship are laid down in the Employment Contracts Act (55/2001).¹¹ Section 1 stipulates:

“This Act applies to contracts (*employment contracts*) entered into by an employee, or jointly by several employees as a team, agreeing personally to perform work for an employer under the employer's direction and supervision in return for pay or some other remuneration. This Act applies regardless of the absence of any agreement on remuneration, if the facts indicate that the work was not intended to be performed without remuneration. Application of the Act is not prevented merely by the fact that the work is performed at the employee's home or in a place chosen by the employee, or by the fact that the work is performed using the employee's implements or machinery.”

Thus it follows that if a worker has committed him or herself personally to work under the supervision of the employer for remuneration, the relationship is considered legally as employment. Because of this legal definition, drawing the line between employment and non-employment is usually not very problematic, with the exception of differentiating between employees and the self-employed. In relation to the latter, typical cases of contention involve compensation for overtime or holidays that has not been paid because the employer has not considered the relationship to be an employment relationship (Paanetoja 2015b). The features set out in the act and thereby the definition of the status of a “worker” also affect the scope of application of other labour laws, such as the Acts on working hours, annual holidays and occupational safety. The definition in the Act has thus great importance for the scope of labour legislation in Finland as a whole. (Paanetoja 2015b).

2.1.1 Healthcare and sickness: cash benefits and benefits in kind

The Finnish sickness insurance system is perhaps one of the most universal in Europe, in the sense that not only are all employees and all the self-employed included, but also those who do not have income at all (home-makers, students etc.) are entitled to minimum daily benefits (see Annex 1 and Annex 2). However, the system is strict when it comes to qualifying conditions. A 10-day waiting period – that is internationally a very long waiting period – must normally be completed before the legislated sickness daily benefit is paid

¹⁰ TEM 33/2013. [Ministry of Labour and Employment] Nollatyösopimukset – työoikeudellinen selvitys. TEM raportteja 33/2013. [Zero Hour Contracts – labour legislative report]

¹¹ Unofficial translation of the act can be found at <http://www.finlex.fi/en/laki/kaannokset/2001/20010055> .

from the Social Insurance Institution, Kela. In most cases a full sick-pay (100% of the wage) is paid to employees during the waiting period. In fact, it is stipulated in labour market agreements that it is the task of the employer to provide sick-pay for a period that varies between branches from 10 days to three months (Järvi & Kuivalainen 2013). Thus, the long waiting period does not affect employees on standard contracts or those self-employed who have private insurance policies, but it impacts those who do not fulfil the employment criteria necessary to be covered by labour market agreements. Usually the criterion is for a minimum of 3 months of work. After the termination of sick pay a legislated benefit of 70% of income is payable for one year.

For persons on very low incomes, or who have no income at all, sickness benefit is paid at the minimum rate (EUR 23.93 a day, which equals to EUR 575 a month). The unpaid waiting period for the minimum benefit is as long as 55 days. (That period is usually covered by social assistance.)

Thus, in the Finnish system employees on standard contracts, are well protected, whereas those in precarious labour contracts (zero-hour contracts, short-term contracts, working only a few hours, etc.) small-scale self-employed, freelancers etc., may rely on the minimum benefit. However, in some sectors the self-employed are covered by better benefits (Kela 2016a). The coverage depends on which pension scheme the self-employed is insured under. The self-employed and other persons that are insured under the Self-Employed Persons' Pensions Act (YEL) or the Farmers' Pensions Act (MYEL) can get sickness benefits in principle on the same terms as employees. (a description of pension schemes is given in section 2.1.3.). Until 2016, the daily allowance was calculated on the basis of the income the self-employed person declared in her/his pension insurance. As mentioned above, the self-employed can decide themselves what income they want to pay their pension contribution on. Often, they try to minimise their pension contribution and declare too low an income, which leads to insufficient compensation in the case of sickness. Since the beginning of 2016, the daily allowances for the self-employed covered by *MYEL* or *YEL* pensions are based on income specified in the latest taxation confirmed by the Tax Authority.

Those living on scholarships or grants are entitled to minimum benefits. However, again, if they have their pension insurance at the Farmers' Social Insurance Institution (*Mela*) under the Farmers' Pension Insurance (*MYEL*) scheme, *Mela* pays a daily allowance during the waiting period.

There are some small differences in the contribution rates between employees and the self-employed. Both employees and the self-employed pay a contribution of 1.3% of income for medical care coverage, whereas the employee contribution for daily allowance coverage is 0.82% but 0.95% for the self-employed¹².

The Finnish health and social care system is undergoing substantial reforms, but their practical content and extensiveness are not yet clear. We do not know which kind of solutions the reforms will offer to various categories of labour market outsiders.

In Finland, every resident has the right to healthcare. In principle, there are no differences whatsoever between standard and non-standard employees or self-employed in their access to healthcare. However, in practice there may be substantial differences caused by occupational healthcare. Employers have an obligation to arrange preventive occupational healthcare for their employees. Kela¹³ reimburses employers a part of their costs (40% for preventive care and 60% for medical care) depending on the extensiveness of the care provided.

In principle, the same option is open for the self-employed who can choose between

¹² ELO, 2016, http://www.elo.fi/self-employed-person-/yel-insurance/whom?sc_lang=en [Accessed the 9th December, 2016]

¹³Kela, Sickness allowances, <http://www.kela.fi/web/en/sickness-allowances>, Kela 2016a [Accessed the 8th December, 2016.]

- A smaller and cheaper option limited to preventive occupational health care which can be signed either with a municipal health centre, a private medical clinic, or a self-employed healthcare professional.
- More extensive medical care coverage.

Often the self-employed here also try to reduce their costs and end up in worse occupational care situations than employees. But somewhat surprisingly, when asked about their satisfaction with health services (0 = very dissatisfied; 10 very satisfied) the mean valued for the self-employed is 7.1, 7.5 for those working on their own in a family business. For employees the mean was 7.0.¹⁴

2.1.2 Maternity/paternity cash benefits and benefits in kind

The Finnish maternity/paternity cash benefit system is universal (Annex 1 and Annex 2) in the same way as sickness insurance, and as a rule, the calculation of cash benefits follows the formula specified in the sickness benefits act.

The maternity leave can begin 30-50 working days before the birth is expected. The mother herself can decide when to start the leave. Maternity allowance is paid for 105 working days during maternity leave. Paternity allowance is payable during the paternity leave for 54 working days. Up to 18 days of that can consist of a period in which both the father and the mother stay at home. Parental leave begins after the maternity leave. Either the mother or the father can take a parental leave, or the parents can take turns. During the parental leave, Kela pays a parental allowance for 158 working days.¹⁵ These options are identical for all residents regardless their employment status.

The maternity, paternity and parental allowances are all calculated in the same way and the amount of the benefit depends on previous earnings including salaries, wages, and income from self-employment, as specified above for sickness benefits. If a person combines part-time self-employment and part-time wage/salary employment, both wage/salary income and the insurable income under the YEL or MYEL insurance are taken into account when calculating the amount of the benefit.

The problem with maternity and paternity leaves, especially for the self-employed, is therefore not the compensation, but the impossibility of taking leave. Many young entrepreneurs work alone or in a small company and find it difficult, if not impossible, to hire a substitute. If one is absent for long, the clients will look elsewhere. Also, the permanent costs of a company continue during maternity and paternity leaves.

In kind benefits are the same for all population categories. A Finnish peculiarity is the maternity grant/ package (Baby box). Families can choose between a maternity package and a tax-free cash benefit amounting to EUR 140. The maternity package contains baby clothes, as well as care products and materials. There are altogether 50 different items in the box¹⁶.

2.1.3 Old-age and survivors' pensions

In Finland, the statutory (1st pillar) pension system consists of three defined benefit (DB) parts: 1) earnings and employment -related pensions (ERP) aimed at income smoothing and, to a reasonable degree, maintaining the income level achieved during the working career; 2) a residence -based National Pension (NP) that is tested against income from the legislated ERP schemes; 3) a guarantee pension (GP), which aims at poverty alleviation and guaranteeing the minimum safety net (EUR 766,85 a month).

¹⁴ Authors' own calculations from the ESS, European Social Survey, module 2014.

¹⁵ Kela, Parental Allowances, <http://www.kela.fi/web/en/parental-allowances>, Kela 2016b [Accessed the 8th December, 2016.]

¹⁶ Kela, <http://www.kela.fi/web/en/maternitypackage> Kela 2016c, [Accessed the 8th December, 2016.]

The NP and GP are precisely the same for all residents and the previous labour market status does not affect them. The Finnish employment related pension system consists of a number of different schemes that are different for employees (*TYEL*), the self-employed (*YEL*) and farmers (*MYEL*). All employees are covered by the *TYEL* scheme. A person can accrue pension rights under several different pension acts during their working life

YEL for the self-employed: The self-employed are obliged to subscribe to YEL pension insurance if they are 18 to 67 years old, the entrepreneurial activity has been continuous for 4 months and income exceeds EUR 7,557.18 a year. If the entrepreneurial income is lower than the minimum, the self-employed can subscribe to a voluntary insurance policy. There also is an upper limit for benefit purposes. By 2016 the ceiling was EUR 171,625.00 a year. Benefits paid by Kela that are determined according to the YEL income consist of sickness allowance (see section 2.1.1.), maternity, paternity and other parental allowances (2.1.2.), special care allowance, rehabilitation allowance and housing allowance¹⁷.

The *YEL* contribution rates vary depending on the age of the self-employed: the contribution is 23.6% for those younger than 53 years of age and 25.1% for older persons. The accrual rates used to be the same as in employees' *TYEL* pension insurance. 1.5% of annual income for a person younger than 53 years of age, 1.9% for those in the age bracket 53–62 years of age and 4.5% for the age group 63 to 67. Since the beginning of 2017 the accrual rate is be 1.5% for all ages.

MYEL for farmers and grant receivers. Farmers' Pension Insurance (*MYEL*) was originally established for farmers, forest owners, fishermen, reindeer breeders and their families. Later recipients of scientific or artistic grants and scholarships become covered by the *MYEL*. There is a separate organization (*Mela*) administering the scheme. Recipients of scientific or artistic grants and scholarships became *Mela's* customers at the beginning of 2009.

MYEL pensions are accrued in the same ways as the other earnings-related pensions. *MYEL* insurance is mandatory for most agricultural entrepreneurs. An individual entrepreneur who does not fall within the scope of mandatory insurance may opt to take the insurance on a voluntary basis. As in the case of self-employed *YEL*, the annual earnings form the basis for other social benefits. *MYEL* (as well as *YEL*) also provides security for the widow or widower and children who are entitled to survivors' pension, in the case of the death of the *MYEL*-insured person.¹⁸

In principle, the accrual rates are the same for the self-employed and employees. The main difference is that the self-employed pay the pension contribution of 24-25% themselves, whereas employees pay only part of the total contribution which is 25% of the wages in the *TYEL* scheme. The employee's share is 5.7% of wage for a person in the age bracket 18 to 52, and 7.2% for employees older than 53 years.

2.1.4 Unemployment benefits and social assistance benefits

Unemployment benefits

In Finland, there is a dual system of unemployment protection: 1) Income-related benefits paid out by unemployment funds and 2) 'basic benefits' paid by *Kela*. To be eligible for non-means-tested unemployment benefits one must meet the "work requirement", which might be difficult for non-standard-workers:

- one must have been in paid employment for at least 26 weeks (about 6 months) during the 28 months preceding unemployment and

¹⁷ ELO, 2016, http://www.elo.fi/self-employed-person-/yel-insurance/whom?sc_lang=en [Accessed the 9th December, 2016]

¹⁸ MELA, Maatalousyrittäjän eläkkeet [Pensions for the farmers] <http://www.mela.fi/en/pension-insurance>, [Accessed the 9th December, 2016]

- one must have worked at least 18 hours per week and
- one's pay must have complied with the terms of the relevant collective agreement or been at least EUR 1,173 per month.

It goes without saying that the self-employed are not considered employees and thus do not meet the first criteria. They have special criteria to fulfill:

- one must have been self-employed for at least 15 months during the 48 months preceding unemployment
- self-employment counts towards the work requirement if the total income from self-employment is at least EUR 1,000 per month (EUR 1,035 per month in 2016).
- all periods of self-employment lasting at least 4 months in which total earnings under the *YEL* (self-employed persons), *MYEL* (farmers) and *TyEL* (employees) pensions acts count towards the work requirement.¹⁹

Those not fulfilling the working criteria may apply for labour market subsidy. This is the case also for parents receiving home care allowance and taking care of a child at home, and informal carers (most often taking care of their spouses, parents or children) receiving informal care support, when they are entering the job market.

Income-related benefits

Income-related benefits are available for unemployment fund members. Membership is voluntary and open also to non-standard-workers. The vast majority of the funds are run by trade unions – which forms an incentive to also join the union. Consequently, the union density in Finland is among the highest (75% of all employees) in Europe. Some argue that the trade unions only promote benefits for labour market insiders and prevent the improvement of the lot of non-standard-workers and self-employed.

Basic benefits

For those unemployed who are not entitled to income-related benefits (payable for 500 days) – either because their earnings-related benefits after the 500 day's period have expired, they do not fulfill employment criteria or they are not members of the voluntary unemployment funds – there are two 'basic' security benefits available: basic unemployment benefit or labour market subsidy²⁰.

Kela provides basic unemployment benefit (payable at a flat rate-basis - EUR 697 a month - for up to 500 days) to those unemployed persons who meet the employment criteria, but who, for some reason or other, are not fund members. Youngsters (18 to 24 years of age) who have not completed vocational training are eligible for the basic unemployment allowance only if they apply for suitable vocational training. Elderly unemployed persons receiving either income-related or basic unemployment benefits are entitled to extended payments that continue beyond the 500-day limit. These 'additional days' are an unemployment path to retirement. The additional days are only available for employees and not for entrepreneurs or self-employed persons, and the age of eligibility depends on the birth cohort.²¹

After the expiration of the 500-day benefit, the labour market subsidy is payable. After 180 days, the labour market subsidy (no maximum limits for duration) becomes means-tested. Labour market subsidy is available also for all those unemployed who are not

¹⁹ http://www.kela.fi/web/en/eligibility_condition-regarding-previous-employment

²⁰ By the end of 2013 the number of income-related benefit recipients was 158,000; 156,000 unemployed were receiving basic benefits; 31,000 were living on labour market subsidy and 12,000 immigrants were entitled to integration allowance. For comprehensive statistics, see Kela 2015.

²¹ The age of eligibility to additional days of income-related or basic unemployment allowance is cohort-specific as follows: 59 years for those born between 1950 and 1954; 60 years for those born in 1955 or 1956 and 61 years for those born in or after the year 1957. Kela 2015h; Työttömyyskassojen yhteisjärjestö 2015.

entitled to fund benefits or basic unemployment benefits²². For these groups, the labour market subsidy is means-tested from the very beginning. One's own income may reduce the amount of the subsidy (but not the spouse's income). If the unemployed person lives with his or her parents, the parent's income, too, may reduce the amount of the subsidy. Some social benefits, e.g., child and housing allowances and income support are exempted from means-testing. No means test is applied during participation in employment promotion measures.

Social assistance

Last resort minimum income protection is called social assistance. The act on social assistance²³ stipulates that social assistance is 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 such as child benefit and other family benefits, housing allowances, disability benefits, sickness and unemployment benefits (paid by Kela).

In principle, the eligibility to universal basic benefits and social assistance is linked to income but not to employment status (see Annex table 1 and 2). However, social assistance can be cut by 20–40% if the claimant refuses to participate in activation measures or job-seeking. The basic social assistance paid to a claimant under 25 years of age who is not participating in employment or education can be reduced up to 40%. The decision is valid for two months. If social assistance is reduced, the social worker must prepare a plan on how to promote the claimant's independent living. Long-term care benefits

Entitlement to long-term care (LTC) services is based on residence and therefore non-standard-workers and the self-employed are not treated differently. Services are granted on the basis of an individual service needs assessment. Social protection for older people or the disabled consists of services and income security, arranged as a part of social and healthcare.

2.1.5 Invalidity, accidents at work and occupational injuries benefits

All residents in Finland are covered against invalidity. Those without employment history and previous income fall into the domain of the National Pension scheme, employees are covered by their employment-related pensions (*TYEL*) and the self-employed by the Pension Act for the Self-employed (*YEL*) or the Pension Act for Farmers (*MYEL*, that in addition to farmers cover some self-employed such as artists, people living on grants etc.). In principle the qualifying conditions for disability pensions are the same in different pension schemes. The claimant first gets sickness allowance for about a year (section 2.1.1.). If the incapacity continues after the termination of sickness benefit, the person can apply for disability pension (*työkyvyttömyyseläke*) or rehabilitation subsidy (*kuntoutustuki*). Rehabilitation subsidy is a fixed-term disability pension. In order to qualify for permanent disability pension, the claimant must obtain a medical certificate from a medical doctor, after which the pension provider in question will evaluate the application and whether the claimant would benefit from further rehabilitation or directly qualify for invalidity pension.²⁴

The Occupational Injuries and Work Accident Act stipulates compulsory insurance that is carried out by private insurance companies for the private sector and municipal workers, by The Pension Institute for Farmers, *Mela* (for farmers and grant receivers), and by the State Treasury for state employees. Despite the administrative decentralisation, benefits are more or less the same for all groups of employees. However, there are some differences

²² This is mainly because they do not comply with the 'employment condition', often they are newly graduated who have not had the possibility to collect a long enough employment history to qualify for income-related benefits, see appendix figure 1.

²³ Act 1412/1997, Laki toimeentulotuesta [the Act on Social Assistance]

²⁴ Kela 2016, 91-92.

in the degree of obligations and extensiveness of the coverage, for example whether only injuries in the work place are covered or also injuries outside working hours. The work accident insurance compensates daily allowance, medical treatment, rehabilitation, pension and survivors' pensions²⁵. The daily allowance roughly corresponds to the previous income and the invalidity pension comprises 85% of income prior to the accident.

The main difference between employees and the self-employed is that for the latter group work accident insurance is totally optional. The self-employed can decide whether to subscribe to insurance policy and what is the income they want to insure. For farmers, work accident insurance (*MATA*) is an automatic part of their *MYEL* pensions. The *MATA* scheme also provides compensation for occupational accidents and disease for grant/scholarship recipients. The insurance covers any treatment expenses for the injury or disease, as well as the daily allowance for the period of work disability.

2.1.6 Family benefits

The main child-related cash transfer is the universal child allowance. The allowance is payable to every child below 17 years of age. The amount of the benefit paid depends on the number of children, and single parents are entitled to higher benefits for each child. The allowance is considered to be the right of the child and is not related to the parents' employment status.

In Finland, there is a dual system of early childhood care: daycare and home care allowance (HCA). Up to August 2016 day care was a universal right for every child, but since then municipalities (that are in charge of the provision of early childhood care) may restrict daycare to 20 hours per week for children whose parents do no work or study full-time. However, a municipality is not allowed to cut the hours of daycare if full-time daycare is needed to boost the child's development because of the family situation or because full-time care is in the best interest of the child.

Some families combine non-standard work with *home care allowance*. Parents who do not use municipal day care are paid a compensation called home care allowance regardless of whether they are working or not. Indeed, some families are able to combine work and home care by working odd hours. The home care allowance can be paid on part-time basis for parents working part-time.

Flexible care allowance can be paid to a parent caring for a child under 3 years of age and working no more than 30 hours per week. The rate of the flexible care allowance depends on the parent's total working time: 1) EUR 244.18 a month if the recipient works no more than 22.5 hours a week or no more than 60% of normal full-time hours and 2) EUR 162.78 a month if the recipient works more than 22.5 hours or more than 60%, but no more than 80%, of normal full-time hours. The level of household income does not affect the allowance.²⁶

A *temporary care leave* of 4 working days is available for the care of a sick child under 10 years of age. The leave can be taken either by the mother or father. A parent who does not live in the same household with the child is also eligible for care leave. The eligibility for temporary care leave is based on the Employment Contracts. Since the benefit is linked to labour contracts between the employer and the employee, it does not concern the self-employed.

²⁵ IF 2015

²⁶ <http://www.kela.fi/web/en/flexible-care-allowance>.

2.2 Assessment of the existing social provisions and of the impact of the possible extension of their coverage

The Finnish social security system is built on the principle of universalism (as indicated in Annex tables). In principle, every individual with permanent residency in the country is equally entitled to social protection. However, there are substantial differences in the coverage of the social protection schemes (benefits in cash and benefits in kind) and the level of income security guaranteed to different sectors of the labour force. There are several reasons for these differences: job characteristics are different, income formation processes are job specific. Since the main social security schemes have been developed for dependent employees, some of the income transfer schemes and social services have been left voluntary for the self-employed. In some cases, the current social policy system does not recognise new forms of employment, etc.

It is much more difficult for the self-employed to separate working and leisure time. In 2013 about 60% of self-employed women and about 70% of men said that the line between work and leisure is hard to draw. The corresponding shares for employees were 20 and 30%.²⁷

There may also be problems linked to day care. Up to August 2016 day care was a universal right for every child, but since then municipalities (which are in charge of the provision of early childhood care) may restrict this right to 20 hours per week for children whose parents do no work or study full-time. For parents, who are non-standard workers or are self-employed, this possibility to cut daycare hours may cause problems. If the full-time-work condition is interpreted strictly, combining on-call-working, zero-hour employment, temporary agency or dispatched work may be difficult²⁸.

In principle, there are various forms of care leaves available for all employment categories, but oftentimes those who are in precarious labour market positions (zero-hour contracts, part-timers, etc.) do not dare to jeopardise their employment by utilising their right to care leaves.

The phenomenon is also reflected in the possibility to take holidays. For employees the legislated holiday is 4 to 6 weeks depending on the employment sector and the length of employment. According to a survey done among the self-employed, only 15% of them can have a holiday longer than 4 weeks. Half of them have holiday for two weeks or less.²⁹

In contrast to the other self-employed, the Finnish farmers are in a privileged position: they have a paid holiday for 26 days (about 4 weeks). During the holiday a municipal 'relief worker' takes care of the farm. The system of providing farmers with farm relief workers was created in 1974 to enable full-time farmers obligated to look after domestic animal production to take breaks from their work for holidays, recreation or because of illness. The reason for these privileges among farmers is based on their strong political representation through the Center Party. Furthermore, it is easier to obtain substitutes to work in farms than in other forms of self-employment that require enterprise specific skills.

Figure 3 below is indicative of the coverage problems among different sectors in the labour force: close to 90% of employees in full-time and permanent jobs have income-related insurance against unemployment, whereas the corresponding share among the self-employed is 20% or less. Academic and other persons living on grants from science and cultural foundations do not have proper protection against unemployment either. Undeniably, basic security benefits are available for all and in that sense, the coverage of social insurance is universal, but as the numbers show, there are substantial differences in the extent of coverage for income-related benefits which, in turn, may lead to inadequate

²⁷ Sutela, H, Pitkät työajat hankaloittavat perheen ja työn yhteensovittamista, Tieto & Trendit 2015, <http://tietotrendit.stat.fi/mag/article/140/>.

²⁸ 16 municipalities have decided not to restrict the right to day-care. That covers approximately one quarter of the population, 1.4 million people, so quite a lot families do not have to worry about day-care.

²⁹ Kauppalehti, 2010. <http://www.kauppalehti.fi/uutiset/yrittajan-loma-on-lyhyt/UbhmhpcV>.

income-loss compensation. Unemployment protection is one example of that. The other one is work accident insurance, which is totally optional for the self-employed.

Although the pension legislation is the same for all categories (with differences in financing) the outcomes in terms of pension levels vary depending on income and work history. Both pensions paid out from the farmers' *MYEL* and the self-employed workers' *YEL* lag behind the average for all pensioners as indicated in Table 1.

When it comes to years of employment, the self-employed have the longest work careers before taking their old-age pension. The median work career for the *YEL*-insured self-employed is as long as 39.6 years; 38.8 years for the *MYEL*-insured farmers, 36.6 years for the *TYEL*-insured blue-collar workers, and 36.8 for the lower and 37.5 years for the upper white-collar workers³⁰. However, there is a rather high incidence of invalidity pensions (see section 2.1.6.) among the self-employed: 10.1 (out of 1,000 insured) among the *MYEL*-insured, 7.7 for the *YEL*-insured. The incidence was the highest (15.1) among the *TYEL*-insured blue-collar workers and the lowest (4.6) for the upper white-collar employees (Järnefelt & al 2014, 72). The pension amount paid to the claimant depends on the length of the work career, and the incomes and pension contributions collected. Despite their longer work careers, farmers and the self-employed have lower pensions (Table 1) than employees, which reflect lower insured incomes for the self-employed.

Table 1. Average pension paid from different pension schemes in Finland 2013 (average for all pensioners = 100)³¹

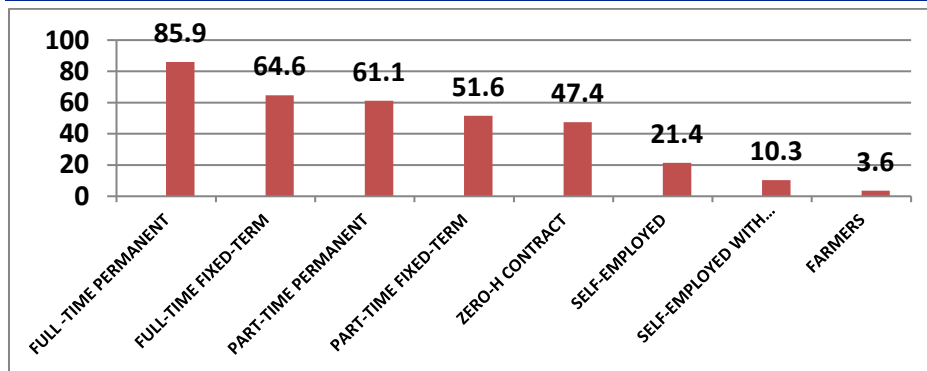
	MYEL	YEL	TYEL			ALL PENSIONERS (= 100)
			Upper White C	Lower White-C	Blue-collar	
Males	70	90	196	137	106	115
Females	64	66	146	93	75	66

There are substantial differences between employment categories both in the coverage and generosity of the unemployment protection schemes. About 90% of employees in long-term and permanent jobs were members of unemployment funds in 2015.³² The coverage among non-standard workers and the self-employed is considerably lower (see Figure 3), which means that the lion's share of them have to rely on the basic unemployment benefits paid by *Kela*. The same applies to many researchers, artists, writers, etc., who are working on various grants. In many cases they contribute to their pension rights via *Mela* (see section 2.1.3. above), but nevertheless they do not have the right to be members of unemployment funds and hence, they do not have rights to income-related unemployment benefits.

³⁰ Järnefelt, N., Nivalainen, S., Salokangas, S. & Uusitalo, H. Sosioekonomiset erot – työurat ja eläkkeelle siirtyminen ja eläkejärjestelmä [Socio-economic differences, work careers, transition to pension and the pension system], Eläketurvakeskus, Helsinki, Eläketurvakeskuksen raportteja 1/2014, p 47.

³¹ Järnefelt, N., Nivalainen, S., Salokangas, S. & Uusitalo, H. Sosioekonomiset erot – työurat ja eläkkeelle siirtyminen ja eläkejärjestelmä [Socio-economic differences, work careers, transition to pension and the pension system], Eläketurvakeskus, Helsinki, Eläketurvakeskuksen raportteja 1/2014.

³² <http://www.findikaattori.fi/fi/36>

Figure 3. Membership in unemployment fund by employment status (%) in Finland 2015³³.

One additional problem is that in the present legislation possibilities to smoothly and safely move from unemployment to self-employment are too limited. Unemployed persons who start their own business are in danger of losing their unemployment benefits. Therefore, it is less risky to stay on the dole than to try to find income through self-employment. In its governmental program the Juha Sipilä Government expressed its willingness to promote self-employment. Consequently, there have been initiatives to facilitate the combination of unemployment benefits and self-employment. The experiment with basic income will show if unconditional basic income could solve the different problems met by non-standard employees and the self-employed.

In order to illustrate the differences between income-related benefits available for employees and the basic benefits which the self-employed would be entitled to in case of unemployment and work accident, we can take a hypothetical employee earning EUR 2,500 a month and a self-employed person with a similar income. In case of unemployment, the employee would get about EUR 1,500 a month, whereas the basic daily allowance for the self-employed would be EUR 697 a month. The compensation in case of a work accident would be about EUR 2,500 for the employee and EUR 1,750 for the self-employed, or if the person had no right to the income-related benefits, the universal minimum allowance would be approximately EUR 622 a month.

There are no proper calculations about what the exact costs would be if all the self-employed were to be entitled to the same benefits as employees. In their report on making the unemployment insurance scheme compulsory for all categories and having it administered centrally by the Social Insurance Institution *Kela*, Hiilamo & al (2015)³⁴ argue that such a reform would not be more costly than the present voluntary insurance scheme. More simulations should be made to get a fuller picture of the possible costs.

³³ Authors' own calculations from the survey they ordered from Taloustutkimus. The survey (n = 2052 respondents) was carried out in December 2015.

³⁴ Hiilamo, H., Lepomäki, E., Pöysti, T., Soininvaara, O., & Vartiainen, J. Yhtäläinen, oikeudenmukainen ja kannustava työttömyysturva [Universal, fair and encouraging unemployment insurance]. Sitra, Helsinki 2015.

3 Conclusions and recommendations

The Finnish employment pattern is still strongly based on full-time and permanent jobs and so is the social security system, but this is changing. Since the early 1990s the number of self-employed persons has increased by more than 60,000. The increase has mainly taken place in one-person enterprises. Some of these are cases of forced self-employment (i.e. self-employment as the only option to make a living), such as former municipal workers in the social sector who as self-employed do the same job they previously did as permanent and full-time employees. The ongoing, extensive reform of the Finnish social and welfare services emphasise private provisions and small enterprises, as well as family care. It remains to be seen whether the reform will increase the number of the self-employed in the social and health services, as well as the number of informal carers, which at the moment are in a peculiar situation: they are not considered as employees, even though the criteria for employment is in most cases fulfilled. A worker status would be important, especially for working age informal carers, who at the moment have difficulties with, e.g. unemployment benefits.

On basis of the above our recommendations are that:

- the government should set up a special expert group to analyse the extent to which the coming social and healthcare reform will change the prevailing mode of labour contracts.
- the possibility of expanding the coverage of income-related unemployment benefits should be investigated – including in relation to freelancers and persons living on academic and artistic grants, who lack access to proper unemployment protection.

Since social security coverage is based on residence, at least in principle, all sectors of the labour force are entitled to benefits in kind, such as healthcare, social welfare services or long-term care, as well as to cash benefits such as pension, sickness allowance, unemployment benefits or family benefits. For example the Finnish sickness insurance system is perhaps one of the most universal in Europe, in the sense that not only are all employees and all the self-employed included, but also those who do not have income at all (home-makers, students etc.) are entitled to daily benefits (minimum sickness benefits).

Even though the Finnish social security system covers non-standard workers well, some problems stand out. The first concerns the level of benefits. Since the system is twofold, with basic and earnings-related benefits, those outside permanent, full-time jobs often end up getting lower basic benefits. The second has to do with the voluntary coverage for unemployment and work accident benefits. In too many cases, the self-employed neglect to insure themselves against the loss of income. Thirdly, since the declared income, from which social security contributions for income-related benefits for the self-employed are collected, forms the basis for calculation of other social benefits, the consequences of paying contributions only on a reduced income may be detrimental to adequate social protection. As a result, the self-employed are often inadequately insured against old-age, sickness, work accident, pregnancy, and unemployment. Initiatives are also required to improve access to sickness benefits.

Those without standard employment contracts have long waiting periods, unless they have signed up for complementary insurance. To be able to cater for these, one has to be quite well-informed. Low threshold information is already provided

The coverage in voluntary income-related unemployment insurance is a telling example. About 90% of employees in permanent jobs were members of unemployment funds in 2015. The coverage among workers in non-standard employment and the self-employed is considerably lower, which means that most of them rely on the basic unemployment benefits paid by *Kela*. The same applies to many researchers, artists, and freelance journalists etc., who are subsisting on various grants. Many of them build up pension rights by contributing to *Mela* (see section 2.1.3. above), but do not have the right to participate

in unemployment funds and hence do not have the right to income-related unemployment benefits.

Even though, as members of unemployment funds, they should be, in principle, entitled to higher, earnings-related-unemployment-benefits, non-standard workers may have problems in fulfilling the criteria. The “working requirement” may be especially hard to fulfil, if their working hours are low. Part of solving this problem would be better respect of social rights. There is a principle of “comprehensive interpretation” in Finnish social law, which means that no-one should fall through the net. If a person is not entitled to one benefit, (s)he should be entitled to another. For example, if a person is not considered sick enough for sickness allowance, (s)he should be getting unemployment benefit. Interpretation of the criteria in individual cases should - and could – be fairer.

Non-standard workers are now pinning their hopes on the recommendations made by the expert group nominated by the Minister of Labour Jari Lindström in summer 2016. The expert group evaluated how unemployment protection among the self-employed could be improved. The main recommendation was a ‘combinatory insurance’ making it possible to simultaneously insure income from paid labour and from self-employment. Such a form of insurance would improve unemployment protection for those persons who combine part-time jobs with part-time self-employment. In order to achieve these goals steps towards a more comprehensive unemployment protection should be taken: ‘combinatory’ unemployment insurance would be a good start. Furthermore, possibilities for a smoother transition from unemployment to self-employment should be developed.

Since the self-employed or people in non-standard employment often are not entitled to earnings-related unemployment benefits, they receive basic benefits. The problem with them is their insufficiency. The claimant usually gets a number of ‘basic’ security benefits combined with social assistance. Finnish basic security consists of a number of different parts and there is a very strong overlapping between the basic benefits and social assistance. 94% of households receiving social assistance also receive some *Kela*-administered basic security. To simplify the basic security system possibilities to unify different *Kela*-based basic minimum transfer schemes should be studied.

To partly tackle this problem and especially the complexity of the system, the Government decided to experiment to see if basic income would improve economic security and social protection among the precarious workforce, those who are self-employed or in atypical employment contracts. The experiment started on 1 January 2017 with 2000 randomly selected unemployed getting unconditional flat-rate benefits of EUR 560 (net a month) from the Social Insurance Institution of Finland (*Kela*).

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Annex 1

Summary table: access to social protection, contractual employment (non-standard contracts) in Finland 2016.

	Full-time employee	Part-time employee	Fixed-term employee	Temporary agency worker	Casual and seasonal workers	On-call workers	Zero-hour workers	Apprentices	Paid trainees	(Other) persons in vocational/professional training
Healthcare - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Sickness - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Maternity/paternity - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Old age pensions (preretirement benefits and pensions)	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Survivors pensions and death grants	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Unemployment benefits	Full	Full	Full	Partial	Partial	Partial	Partial	Partial	Partial	Partial
Social assistance benefits	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Long-term care benefits	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Invalidity benefits	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Accidents at work and occupational injuries benefits	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full
Family benefits	Full	Full	Full	Full	Full	Full	Full	Full	Full	Full

Note: All residents are entitled to healthcare regardless of employment status. However, occupational healthcare usually demands a certain amount of work per month which means that not all non-standard workers are entitled to it.

All residents are entitled to basic benefits as well as income related benefits. The amount of income related benefits naturally depends on the income – which may be rather small for some of the non-standard-workers.

All residents are entitled to social assistance.

All residents are entitled to Long Term Care.

Coverage for unemployment protection requires own initiative by the self-employed – they can voluntarily insure themselves. Basic benefits are available for all in the case of unemployment. Income-related benefits are available for fund members.

Annex 2

Summary table: access to social protection, self-employed in Finland 2016.

	On her/his own account	With employees (self-employed employer)	Dependent on single client	Dependent on contractual relationship with client	Liberal professions (e.g. doctor, notary, lawyer)	Farmers
Healthcare - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full
Sickness - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full
Maternity/paternity - cash benefits and benefits in kind	Full	Full	Full	Full	Full	Full
Old age pensions (preretirement benefits and pensions)	Full	Full	Full	Full	Full	Full
Survivors pensions and death grants	Full	Full	Full	Full	Full	Full
Unemployment benefits	Partial	Partial	Partial	Partial	Partial	Partial
Social assistance benefits	Full	Full	Full	Full	Full	Full
Long-term care benefits	Full	Full	Full	Full	Full	Full
Invalidity benefits	Full	Full	Full	Full	Full	Full
Accidents at work and occupational injuries benefits	Full	Full	Full	Full	Full	Full
Family benefits	Full	Full	Full	Full	Full	Full

Occupational health care: The self-employed may not obtain similar occupational healthcare services that are provided to standard workers. In most cases, the self-employed rely on basic healthcare services.

Unemployment insurance: The self-employed are covered under basic unemployment benefits as all residents. In principle, the self-employed may insure themselves with private insurances such as earnings-related unemployment funds. However, they may have difficulties fulfilling some of the criteria of both such as the working requirement e.g., in the case of a failing business it is difficult to establish the exact starting date of unemployment.

Work accident: Work accident insurance for self-employed is optional in Finland. That requires own initiative and not all of the self-employed have insured themselves.

