



# Finland: New forms of unemployment protection for the self-employed

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*On 15 December 2016, an expert group nominated by the Minister of Labour delivered its proposal for a new “combinatory unemployment insurance” (yhdistelmävakuutus) which should enable people who are both self-employed and in paid labour or moving between these two statuses to be insured. The Ministry of Social Affairs and Health is currently preparing the bill.*

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## Description

In principle, the Finnish unemployment protection system is universal. It consists of two parts: 1) basic unemployment benefits; and 2) income-related benefits.

The “basic benefits” are paid out by the Social Insurance Institution (Kela). There are two Kela-based flat-rate benefits: the means-tested labour market subsidy (työmarkkinatuki), which is payable for an unlimited period of time, and the basic unemployment benefit (peruspäiväraha), which is payable for up to 400 days. To be eligible for the basic unemployment benefit (which is not means-tested), the unemployed must meet various “work requirement criteria”. These criteria are different for employees and for the self-employed.

Income-related unemployment benefits are payable to unemployed people who have been members of a voluntary unemployment fund. There are substantial differences between the two types of employment in the coverage of the unemployment schemes. Whereas about 90 percent of the employees working under permanent contracts are members of an unemployment fund, the corresponding share for the self-employed is about 20 percent (Kangas & Kalliomaa-Puha 2017).

A growing number of people combine income from self-employment and paid labour; because of this mixed employment status, it is unclear which rules in the unemployment legislation apply to them. Furthermore, it is unclear when self-employed can be considered unemployed. Their benefits may be denied altogether if the labour market office finds that they can get earnings from self-employment.

In order to address these problems, the Minister of Labour, Jari Lindström, nominated an expert group (on 23 June 2016) to propose ways in which the unemployment protection for the self-employed and non-standard workers could be improved. The main task of the group was to provide suggestions on how to create income security for those who combine part-time paid employment with part-time self-employment. In its report delivered on 15 December 2016, the expert group suggested that a new “combinatory unemployment insurance” (yhdistelmävakuutus) should be implemented (Löfgren & Hellsten 2016)

The basic principles according to which the Ministry of Social Affairs and Health is preparing the bill are as follows:

1. The underpinning rationale is to change the unemployment insurance system to encourage self-employment, to take better account of the different forms of work and to allow for flexible transitions from an entrepreneur status to a wage earner status (and vice versa).

2. The current differences in status between entrepreneurs and employees will be maintained, but the system will be changed so that unemployed people can begin to work as entrepreneurs without losing their rights to unemployment benefits.

3. People who combine paid labour and self-employment can simultaneously insure both their wages and their income from self-employment. Thus, the lack of coverage for unemployed people who have combined part-time paid employment with part-time self-employment would be eliminated.

The government will probably take a decision on the bill in spring 2018 when the financing of the scheme is accepted.

## Outlook & commentary

Reactions to the proposal have been mainly positive (Veirto 2016; Luomanmäki 2017). The new legislation would improve possibilities to simultaneously insure incomes from different sources, and hence improve the rate of insurance coverage. However, the basic problem

remains: self-employed people, and those working at the boundary between employment and self-employment, will continue to have significantly lower membership rates in the voluntary unemployment funds than employees working full-time and on permanent employment contracts. Thus, the reform only partially solves the problems linked to precarious employment and small-scale self-employment. Furthermore, financing of the new scheme is still an open question.

More radical proposals to introduce a compulsory and universal unemployment insurance in Finland have been made (Hiilamo et al. 2015; Kotamäki 2017). According to these critics, the funding of earnings-related unemployment benefits is unfair. The unemployment insurance premium, which largely finances the earnings-related benefits, falls to all wage earners. Nonetheless, only people who are members of an unemployment fund are entitled to earnings-related benefits. The question is why uninsured people should pay for insurance for insured people (Kotamäki 2017). One solution would be a universal and obligatory insurance. However, for the time being there are too many vested interests in the present system that reject more radical reforms. Therefore, a combinatory insurance may be a viable solution.

## Further reading

Hiilamo, H., Lepomäki, E., Pöysti, T., Soininvaara, O. and Vartiainen, J. (2015). *Yhtäläinen, oikeudenmukainen ja kannustava työttömyysturva* [Equal, fair and activating unemployment security]. Helsinki: Sitra.

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Kotamäki, M. (2017). *Essays on Social Insurance and Taxation*. Turku: Annales Universitatis Turkuensis E 15.

Luomanmäki, S. (2017). *Yhdistelmävakuutuksen ripeään valmisteluun panostettava* [More effort for the rapid preparation of the combinatory insurance], available at: <http://akavanentre.fi/new-page/>.

Löfgren, M. & Hellsten, H. (2016). *Selvitys työttömyysturvajärjestelmän muutostarpeista palkkatyön ja perinteisen yrittäjyyden välimaastossa* [Report on the needs to reform the unemployment protection system in between dependent employment and self-employment]. Helsinki: Ministry of Economic Affairs and Employment, Publications 40/2016.

Suomen Yrittäjät [The Federation of Finnish Enterprisers] (2016): <https://www.yrittajat.fi/tiedotteet/546395-ehdotukset-tyottomyysturvan-muutoksiksi-kannatettavia>.

Veirto, K. (2016). *Yhdistelmävakuutus - turvaverkko itsensätyöllistäjille* [A combinatory insurance – safety net for the self-employed], available at <http://www.yhteenveto.fi/yhteenveto/artikkelit/2016/3/miten-kilpailukykysojimus-pidentaa-tyoaikaa>.

## Authors

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