

## Finland's national plan under the Council Recommendation 2019/C 387/01 on access to social protection for workers and the self-employed

Pursuant to Article 19 of the *Council Recommendation 2019/C 387/01 on access to social protection for workers and the self-employed*, Finland has prepared a plan concerning the corresponding measures to be taken at national level. Finland's national plan was prepared in broad cooperation with stakeholders. The Ministry of Social Affairs and Health had the main responsibility for the preparation of the plan and its key policy objectives and measures. In addition to the Ministry of Social Affairs and Health's internal preparation process, the Finnish Centre for Pensions and Kela, the Social Insurance Institution of Finland, were consulted on the key policy objectives and measures of the national plan. The Finnish Workers' Compensation Center participated in drawing up the section concerning information production. The social partners and other key stakeholders had the opportunity to participate in the preparation of the national plan in a written procedure conducted in preparative sub-committees between 11 and 12 May 2021.

### 1. Challenges

#### 1.1. Operation of the system

The Finnish social security system is divided into two different forms of security: residence-based and employment-based social security. The entitlement to the residence-based benefits is based on residence or employment in Finland. In the employment-based social security system, people are treated as either employees or self-employed persons. Regarding the risks included in the Council Recommendation, social security coverage is mostly the same for both groups, except for insurance against occupational accidents and diseases, which is voluntary for self-employed persons (excluding farmers) but statutory for employees. To be entitled to receive earnings-related social security benefits, self-employed persons must also be insured under the Self-employed Persons' Pensions Act (YEL) or the Farmers' Pension Act (MYEL)<sup>1</sup>.

In Finland, a significant part of social security is provided through statutory insurances, which together constitute social insurance. The insurance-based forms of social security include earnings-related pension, occupational accidents and diseases insurance<sup>2</sup>, health insurance (including sickness and parental allowances) and unemployment security, i.e., all the risks included in the Council Recommendation. These

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<sup>1</sup> Taking out insurance under YEL is voluntary if the self-employed person's income from work is less than EUR 8,063.57 per year (in 2021). Taking out insurance under MYEL is voluntary if the farmer's income from work is less than EUR 4,032 per year (in 2021). However, such persons are entitled to basic social security benefits if they reside in Finland permanently.

<sup>2</sup> Disability benefits are paid through the earnings-related pension scheme, the national pension scheme or the occupational accidents and diseases insurance.

social insurance risks are covered from both forms of security; residence-based and employment-based social security. The residence-based system is a comprehensive system that secures people's income regardless of their labour market status and effectively prevents situations where people slip through the net.

The residence-based social security system includes, inter alia, health insurance (including sickness and parental allowances), a minimum pension (national and guarantee pensions) and labour market subsidy. The minimum pension and labour market subsidy are paid to those who do not meet the requirements of the earnings-related benefits or whose earnings-related pension is very small. The health insurance allowances included in the residence-based social security system are paid as earnings-related allowances to those who have income from work. Others receive the benefits at minimum level. Employment-based benefits such as earnings-related pension, earnings-related unemployment benefits<sup>3</sup> and occupational accidents and diseases benefits are always based on earnings.

Employees' benefits are determined on the basis of their earnings with the help of the Incomes Register. For self-employed persons, the insurance and confirmed income under the Self-employed Persons' Pensions Act (YEL) or the Farmers' Pension Act (MYEL) play a key role. Their confirmed income under YEL or MYEL determines their pension insurance contributions and pension accrual. In addition, many other social security benefits are determined based on the confirmed income under YEL or MYEL.

### **1.2. Coverage and Adequacy**

As described above, the purpose of Finnish social security is to ensure as extensive coverage as possible through a system which consists of minimum and earnings-related security schemes and in which people's entitlement to benefits and level of security are determined in relation to their situation before the materialisation of a risk.

According to the monitoring framework<sup>4</sup>, there are no gaps in the formal coverage of employees' or self-employed persons' social security in Finland. With respect to effective coverage as well, Finland compares well in the different categories, even though the indicators used provide only limited information about the systems' ability to secure effective coverage. This is also noted in the monitoring framework and is understandable due to the differences between the systems of different Member States.

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<sup>3</sup> The basic unemployment allowance forms an exception, because even though it is an employment-based benefit, it is a minimum-level benefit. To receive basic unemployment allowance, self-employed persons must meet various conditions that include being insured under YEL or MYEL.

<sup>4</sup> European Commission 2020: Access to social protection for workers and the self-employed - Version 0 of the monitoring framework



Regarding adequacy, Finland also performs well according to the monitoring framework, even though there is variation between different groups and indicators. Also from the perspective of legislation, coverage and level of social security appear to be good in Finland in the light of the monitoring framework.

In this respect, Finland considers that the implementation of the Council Recommendation will not require amendments to national legislation.

### **1.3. The Main Challenges and Areas for Reforms**

According to the monitoring framework, Finland meets the objectives of the Recommendation, and the Finnish system yields good results. It is, however, important to continuously develop the social security system. Social security systems have been established over time, and it is essential to develop them to prepare for future challenges. Against this background, and in line with Prime Minister Sanna Marin's Government Programme, a social security reform has been launched in Finland. In March 2020, a parliamentary committee was established to be in charge of the reform. The committee's working term lasts from 23 March 2020 to 31 March 2027.

In relation to the Recommendation, Finland's most important individual areas in need of development are self-employed persons' social security and the insurance under YEL, which determines it. This insurance is outside the scope of the social security reform committee. Regarding the situation of self-employed persons, Prime Minister Marin's Government Programme states that the Government will explore 'measures to effectively coordinate entrepreneurs' social security with other forms of income and to improve their pension cover' and 'different models for improving the social security and pension security of entrepreneurs and the self-employed'<sup>5</sup>. The above outlines of the Government Programme are to a large extent based on the report of a working group for the development of the earnings-related pension security of self-employed persons<sup>6</sup>. The key problems of the YEL system identified by the working group were self-employed persons' underinsurance and their resulting low level of social security.

Underinsurance directly affects self-employed persons' income during their career, as well as after retirement. It also affects the survivors' pension paid to the spouse and children when a self-employed person dies. If self-employed persons' earnings-related pension is very small, they will be covered by the national and guarantee pension schemes, the purpose of which is to provide minimum security. However, the Finnish statutory pension schemes are based on the idea that those who will possibly receive national or guarantee pension in the future also secure their income after retirement primarily on the basis of the pension accrued from their employment. Underinsurance also affects self-employed persons' other social security benefits, because many of them are determined based on the confirmed income under YEL. With

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<sup>5</sup> Prime Minister Sanna Marin's Government Programme; Finnish Government publications 2019:31.

<sup>6</sup> Ministry of Social Affairs and Health, reports and memos 2019:23.

underinsurance, self-employed persons' earnings-related pension and social security benefits will be smaller than what they would receive by confirming their income under YEL at the level required by law.

Self-employed persons' pension insurance is also influenced by their views on the pension and social security system, as well as by their knowledge and understanding of these. Various surveys have suggested that self-employed persons have lower trust in the pension system than employees. One sign of this is the fact that even though self-employed persons are aware that their confirmed income under YEL is too low compared to the actual value of their work efforts, they do not deem it necessary to raise it. On the other hand, around one in five self-employed persons think that they would need more information about the impact of the insurance under YEL on other social security benefits.

## 2. Lessons learnt from the COVID-19 crisis

Finland's comprehensive social security system has been able to effectively mitigate the social effects of the COVID-19 pandemic. The flexibility and coverage of the Finnish residence-based social security system were demonstrated in the crisis situation, because the system was also able to effectively secure people's income during the unprecedented crisis. One sign of this was the fact that, compared internationally, Finland made only a few temporary changes to the social security system. Below are presented the temporary changes in unemployment coverage that are still in effect or have already ended<sup>7</sup>.

With respect to the Council Recommendation, the most important COVID-19-related measure has been the temporary exception to the conditions for self-employed persons' entitlement to labour market subsidy. According to this change, Kela, the Social Insurance Institution of Finland, may pay self-employed persons labour market subsidy if their full-time employment in their business has ended even though the business continues to operate. Based on the temporary change, self-employed persons can also demonstrate the end of their full-time employment by the fact that their income from self-employment, because of the epidemic, is less than EUR 1,089.67 per month. In normal circumstances, self-employed persons must close down their business or have a long enough employment history with another employer beside their business to be eligible for unemployment benefits. These temporary conditions for self-employed persons' unemployment benefits will be effective until 30 June 2021, but the Government has proposed that the temporary changes be continued until 30 September 2021.

The temporary change also concerns the adjustment of unemployment benefits, in which, normally, the tax information for the previous year is used when adjusting the income from self-employment. Based on this change, if a self-employed persons' income has changed due to the coronavirus outbreak, they themselves may temporarily report their current income to Kela. Kela will adjust this income with the benefit. According to the decision currently in force, this change will be in effect from 11 May 2020 to 30

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<sup>7</sup> In addition to these changes, a temporary reduction has been made in pension insurance contributions paid by employers, as well as a rescheduling of the payment of self-employed persons' insurance contributions under YEL and MYEL.



June 2021, but the Government has proposed that the temporary changes be continued until 30 September 2021.

In addition, the exempt amount applicable to unemployment benefits has been raised temporarily. If the unemployment benefit is paid on a monthly basis, employees and self-employed persons can earn a gross amount of EUR 500 (normally EUR 300) without it affecting their benefit. Their benefit will only be reduced if their income exceeds this limit. According to the decision currently in force, this increase applies to benefit adjustment periods beginning between 1 June 2020 and 30 June 2021, but the Government has proposed that the temporary changes be continued until 30 September 2021.

To improve employees' income security, temporary legislative changes were made to the waiting period of unemployment benefits. Normally, the waiting period is five working days, and unemployment allowance is paid only after this period. According to the temporary change, unemployment allowance could also be paid for the waiting period. This change was applied to waiting periods that started between 16 March 2020 and 31 December 2020. The legislative change was temporary and ended on 31 December 2020.

The work requirement for employees' unemployment allowance was also temporarily shortened from the normal 26 weeks to 13 weeks. The work requirement was also shortened from the normal 52 weeks to 26 weeks for the non-owner family members of self-employed persons. To qualify for this exception, they must have worked at least one working week that fulfilled the work requirement after 1 March 2020. This temporary change was in effect from 15 April 2020 to 31 December 2020. In addition, a temporary change was made, according to which the maximum payment period for unemployment allowances was not applied to unemployment allowances paid based on a temporary lay-off or unemployment between 1 July and 31 December 2020.

When this national plan was prepared, Finland was still in the acute phase of the crisis. Therefore, the plan does not include a more profound analysis of the crisis and the national measures taken to mitigate its social effects. We consider that it is still too early to make such an evaluation, which can be prepared after the acute phase of the crisis is over.

### **3. Policy objectives and measures to be taken**

#### **3.1. Social security reform**

As stated in section 1.3, the long-term social security reform is the key measure with regard to the Council Recommendation. The social security reform aims for a clearer and more well-functioning system, that stays involved through changes in people's lives and enables the reconciliation of work and social security. The focus in reforming social security is on securing social justice and on ensuring income security for people who are facing social risks. When reformed, the social security system will better help create opportunities for employment, entrepreneurship, active individual initiative, social participation and lifelong learning. The reform will pay special attention to the balance between the rights and obligations of individuals. The process also aims to increase people's awareness and knowledge of social security and

generate a social dialogue on the subject. The committee's work aims to achieve a long-term perspective in developing the structure and operation of social security.

The committee will be in charge of reforming social security as a whole. It will address questions related to basic social security, earnings-based benefits and social assistance, and will examine the financing and connections between these forms of support. Attention will also be given to ways to better integrate services with benefits. The work will take into account the diversity of people's life situations and changes in people's lives, and the transition from one benefit to another. Social security reform is closely linked to other key reforms of the Government Programme, such as the reform of health and social services, the work ability programme and the working groups on employment.

The social security reform targets social security that falls within the scope of the Council Recommendation. The only risk included in the Recommendation but excluded from the social security reform are old-age pensions. The reform is a comprehensive reform, which is why, from the perspective of the implementation of the Recommendation, it would not be reasonable to take separate development measures outside the reform schedule. Instead, when preparing the reform, attention will be paid to the Council Recommendation, where applicable, and the future challenges of the groups of people it applies to. The parliamentary committee is still in the process of forming a sufficient consensus on the current state of social security, which will serve as a basis for key choices made for the reform. Since the preparation is not yet finished, it is not possible to describe more detailed policy measures.

### **3.2. Development of self-employed persons' pension insurance**

In addition to the social security reform, another key measure related to the implementation of the Recommendation and the development of social security is the working group for the development of the pension security of self-employed persons (hereinafter the working group), whose task is to explore measures to improve self-employed persons' pension security in accordance with the outlines of the Government Programme. The tripartite working group includes representatives of employees' and employers', Suomen yrittäjät<sup>8</sup>, the Finnish Pension Alliance TELA, the Finnish Centre for Pensions, the Ministry of Social Affairs and Health, and the Ministry of Finance. The working group was appointed for the government term and is guided by the outlines of the Government Programme.

The activities of the working group are based on the report of the previous working group for the development of the earnings-related pension security of self-employed persons<sup>9</sup>. It evaluates the previous working group's proposals and their implementation possibilities. Since the working group's work is still under way, only preliminary views on the future measures can be presented at this stage.

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<sup>8</sup> Suomen Yrittäjät is an interest and service organization for small and medium-sized enterprises (SMEs) and their owners.

<sup>9</sup> Ministry of Social Affairs and Health, reports and memos 2019:23.



### *Development of monitoring*

The working group that operated during the previous government term proposed that self-employed persons' confirmed income under YEL should be regularly monitored. Regular monitoring could help to achieve a situation where self-employed persons' confirmed income would better follow the development of their business, and where their social security and pension accrual would be better in line with the level required by legislation. The working group evaluates the possibilities of developing legislation concerning the monitoring. At this stage, it is not possible to present measures in more detail since the working group and the Government have not yet prepared any policy recommendations.

### *Development of a calculator of confirmed income under YEL*

Based on the observations of the previous working group, determining one's confirmed income may be difficult at early stages of business activities. One solution proposed is the development of a calculator of confirmed income under YEL.

The Finnish Centre for Pensions has conducted a preparatory study on such calculator. The development continues with the exploration of technical solutions and the possible need to amend legislation.

### *Communication-related development measures*

Regarding the challenges described in section 1.3, self-employed persons' views and knowledge of the pension and social security system play a significant role, which also makes adequate and fact-based communications important. As a statutory developer, expert and joint service producer of earnings-related pensions, the Finnish Centre for Pensions is a key player in knowledge and communications – of course in collaboration with earnings-related pension providers and other stakeholders. In addition to the Finnish Centre for Pensions, Kela, the Social Insurance Institution of Finland, has also recently renewed its website for self-employed persons. The aim is that self-employed persons will be better informed about their entitlement to benefits paid by Kela and understand how their insurance under YEL/MYEL affects their benefits.

Self-employed persons are one of the focus groups of the Finnish Centre for Pensions communications, and the Centre has launched or is about to launch the following measures:

- The Finnish Centre for Pensions and earnings-related pension providers will carry out a multi-channel campaign on YEL in the autumn of 2021. Its aim is to share key facts about the insurance under YEL, as well as information about how self-employed persons' confirmed income affects their pension and social security.
- The Finnish Centre for Pensions has established cooperation with the Finnish Enterprise Agencies. This cooperation includes training events, newsletter contents and communications about YEL aimed at emerging entrepreneurs.
- The Finnish Centre for Pensions will participate in a corporate responsibility campaign organised by the Tax Administration. The Centre's role is mainly related to the supervision of insurances under YEL.

- The Finnish Centre for Pensions will also produce content for self-employed persons' own media channels and share information about the insurance under YEL in its own communication channels.

### 3.3. Development of statistics and information production

The development of national information production is continuously evaluated. It is important to develop statistics and information production as it enables information-based decisions. Finland has very comprehensive registers, which provide a significant amount of information. Statistical data related to the Recommendation has been delivered to the European Commission for the monitoring framework. In addition to this data, the Finnish Centre for Pensions, Kela, the Social Insurance Institution of Finland, and Finnish Workers' Compensation Center, among other bodies, regularly publish open statistics on the use of social security benefits. These data are mainly available by gender, region and age group.

Obtaining more detailed data or statistics often requires the cross-referencing of data from two or more registers, which is a heavy process that requires resources. Such registers, the data they include and the purpose of use of the data are strictly regulated by legislation. Therefore, when information production is developed, it is always necessary to evaluate the necessity of the information, the workload required to produce it and any legislative constraints. These help to evaluate the utility value of producing the information and whether it exceeds the resource inputs required to produce the information.

The monitoring framework revealed certain gaps in information production. These include the number of self-employed persons insured against occupational accidents<sup>10</sup> and data on persons who carry out business and whose income from their business remains below the statutory limit for taking out an insurance under YEL<sup>11</sup>. The production of information on insurances under YEL has also been developed actively. For example, nowadays data on changes in confirmed incomes under YEL are passed on to the Finnish Centre for Pensions, so that changes in the level of confirmed incomes can be statistically monitored better than before. We will continue the development of information production as part of our general development activities and legislative reforms. Information and statistics production also plays a key role in the social security reform to enable information-based decisions.

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<sup>10</sup> The data on the number of occupational accidents and diseases insurances that include self-employed persons is available and has been delivered in connection with the collection of statistics for the monitoring framework in April 2021.

<sup>11</sup> Many of these self-employed persons are part-time entrepreneurs whose employment-based social security is determined by their paid work.



#### **4. Way forward**

Finland regards it as important to continue discussion about universal access to social protection at the EU level. While the basic principles of social security systems vary across Member States, these systems are challenged everywhere by the ongoing transformation of work and the platform economy. The shared challenge also provides an opportunity to solve problems together. In view of the implementation of the Recommendation and, more broadly, of the challenges brought on by the transformation of work, Finland supports the continuation of the peer learning activities under the Social Protection Committee (SPC). The mutual learning events held during 2019 and 2020 to support the implementation of the Recommendation were successful and helped to generate new ideas. Therefore, we believe that these fruitful expert events should be continued, especially when it is possible to organise normal physical meetings again. On the other hand, peer reviews provide a good opportunity to focus on an individual issue in greater depth with a smaller number of participants. Such reviews have not yet been organised in relation to the themes of the Council Recommendation, but Finland is interested in participating in such events on a case-by-case basis if they will be organised.