Summary

Trends in Social Protection in Finland 2003. Helsinki 2003. 194 p. (Publications of the Ministry of Social Affairs and Health)
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It is the government's key objective to increase the number of the employed by a minimum of 100,000 people by the end of its mandate. A more long-term objective is to reach a 75 % employment rate. Besides quantitative objectives, the quality of working life, productivity of work and access to the job market are emphasised. The prevention of exclusion and combating poverty can only be successfully implemented by employing a wide selection of economic and social policy means. This summary contains the key social protection measures used to reach the objectives mentioned above.

Social protection provides active support for employment and economic growth

One of the aims of social policy is to improve the economic dependency ratio. When social protection was formerly seen almost exclusively as expenditure, its active role has now clearly emerged. The task of social protection is to provide security in the event of social risks, but also to maintain work ability and promote the supply of labour. Social protection is thus an important prerequisite for economic growth.

An ageing population structure means added pressure on the sustainability of public economy, firstly as increasing pension and care costs. Secondly, if the decrease in the supply of labour cannot be compensated for by increasing the employment rate and productivity, economic growth and the increase of tax revenue will slow down, which in turn will make it harder to finance social protection. Growing unemployment and increasing unemployment costs would mean that less resources are available for developing services.

What is needed are the kind of policy solutions that bind together the elements contributing towards a positive cumulative development trend, which both brings with it new resources and reduces the need for expenditure and services. The importance of preventive and predictive policies is emphasised. By using an extensive battery of means it can be ensured that the needs of both employees, companies and the national economy are taken into account.

Work ability creates the foundation for an increase in the employment rate

To make work pay income transfers, income taxation, services and client fees must form a structural whole that encourages activity. Incentives that focus on individual employees are not enough; they must be linked to business interests. The perspective of social protection

serving the individual and the dynamic economic perspectives serving the national economy and entrepreneurship must be combined to form a balanced whole. The starting point of work ability is health, in the form of physical, mental and social capacity. An employee's total working capacity consists of health together with education, training and competence as well as motivation and attitude factors. In the broad sense of the word, work ability also includes competence and its constant updating.

Working capacity comes under a lot of pressure when faced with the demands of work-related tasks, the working environment and the working community. Any shortcomings in health, competence or some other area diminish the working capacity potential of an individual. If the employee is not capable of responding adequately to the demands of work, there is a risk that his or her work ability may be reduced, merely as a result of exhaustion and burnout.

Physical working capacity diminishes with age, but other areas may become stronger. Total working capacity is the interactive sum of many factors. Employees' working capacity and input of work at any given time are also related to their life course as a whole and their current life situation.

The new Act on Occupational Health and Safety emphasises the importance of early intervention

The Occupational Health Care Act that was reformed in 2002 and the Occupational Safety Act that came into force at the beginning of this year bring the key areas of legislation related to well-being at work up-to-date. When the laws were being drafted, changes in the working life and the operating environment of companies were taken into account. The aim of the Occupational Health Care Act is to maintain the health, working and functional capacity of employees during all the phases of their working careers. Maintaining work ability early detection of the risk of disability and charting rehabilitation needs are the key objectives of the new Act.

The Occupational Health Care Act improves cooperation with general health care, social insurance, employment administration and institutions providing rehabilitation. The Occupational Safety Act, on the other hand, emphasises the importance of preventing mental and physical workload, in addition to the traditional occupational safety risks, such as accidents and occupational diseases.

In the early 1990s, work ability maintaining measures became part of statutory occupational health care. In addition to promoting health, a healthy lifestyle and exercise, work ability maintaining measures have expanded in terms of quantity and quality so that they are now embedded in occupational health care, occupational safety and staff training programmes.

Work ability can be restored by rehabilitation

The aim of rehabilitation is to restore working and functional capacity, to lengthen the working career and to reduce the need for other social and health care services. Employees, companies and the national economy stand to benefit when these aims are reached.

From the beginning of 2004, employees at risk of disability will be eligible for vocational rehabilitation. The aim of the reform is to promote rehabilitation as early as possible, at a time when it yields the best results. The aim is also to restore the work ability of employees with the aid of

vocational rehabilitation whenever possible.

On the whole, the Finnish rehabilitation system is regarded as functioning in a satisfactory manner. The objective of the Act on Client Cooperation in Rehabilitation that was reformed in 2003 is to improve cooperation between institutions providing rehabilitation and to make the division of work more clearly defined in cases calling for measures from several organisations providing rehabilitation.

Improved employment of the disabled also important

The equal right to work on the disabled and those with reduced working capacity has been recognised in resolutions of international organisations and the Finnish constitution. Gainful employment as opposed to social protection is a primary alternative as a source of income for the disabled as well. The majority of disabled persons of working age are pension recipients excluded from unemployment statistics.

The aim is to find employment primarily in the open job market for the disabled and people with reduced working capacity as well. As of 1 April 2002, in addition to young and long-term unemployed, people with disabilities have been prioritised when using government employment appropriations for employment purposes. New employment options for people with disabilities include rehabilitative work activities, the joint service experiment of employment administration and social welfare, supported employment activities launched with an amendment of the Social Welfare Act as well as promoting social entrepreneurship.

Vocational rehabilitation of the young disabled is a primary alternative as opposed to disability pension. Persons under 20 can only be granted disability pension when their possibilities for vocational rehabilitation have been charted. Their income security during rehabilitation is covered by a rehabilitation allowance. The objectives of the reform have been implemented, and the supply of active alternatives has increased.

Special attention on ageing workers

During the implementation of the National Programme of Ageing Workers in 1998-2002, the average age of retirement was postponed and the employment rate rose among elderly workers. There was also a reduction in long-term unemployment among older workers. Implemented simultaneously in different administrative sectors, the programme consisted of information and training projects, promoting work ability maintaining measures, improving employment as well as increased information aimed at attaining a more positive attitude towards ageing employees. In the course of the programme, practices were developed for the workplace taking age-related factors into account, and more attention was given to services targeting ageing employees in employment administration, occupational safety and education. The programme also involved research.

A new programme entitled Veto has been launched for 2003-2007 to continue the work of the National Programme of Ageing Workers. Its aim is to maintain and promote the attractiveness of work, having the results and experiences of the National Programme of Ageing Workers trickle down to benefit younger age groups as well. The programme measures focus on work and the workplace, and the organisations that play a part in them. The emphasis is on factors that are important in maintaining individual work ability and

preventing disability at an all too early stage.

Altering exit routes from working life so that they promote employment

Besides the demand for labour, employability is affected by a variety of system-level factors such as labour and pension legislation as well as regulations related to various support and service systems. The exit routes from and return routes to working life are also to a large extent defined by these system-level factors. At the same time they also affect the way people behave as well as their choices and attitudes through various incentives and sanctions.

Many of the measures aimed at encouraging people to stay on at work have involved pension policy. Age limits for pension eligibility have been altered, and the terms of some pensions have been made less advantageous. Today, the possibility for rehabilitation must always be charted before making a pension decision. These measures have reduced the number of people taking up a pension and increased the proportion of elderly employees among the work force. Raising the age limits of early retirement and tightening other conditions can only have the desired effect if the working capacity maintenance, employment and other development of working life can be promoted at the same time.

Finnish employment pension security will undergo a reform from the beginning of 2005. The aim is to encourage elderly workers to stay on at work, so that they retire 2-3 years later than at present. The average age of retirement at the present moment is 59. In future, employment pension is accrued between age 18 and 68, and the time for taking up old-age pension is flexible, between 62-68. The old-age pension of the national pension will continue to be granted at the age of 65. Two pension forms will be discontinued. No new individual early retirement pension will be granted after 2006, and the unemployment pension will be discontinued for those born after 1950. The pension reform will only take full effect in the long term, but the signal effect on attitudes related to work as well as the regulatory effect of the reform on the service system will be felt immediately.

A new, comprehensive approach towards risks for unemployment

The key problem of unemployment in Finland is its structural nature. Supply of labour by field of production, vocational competence and productivity are not in balance with the demand of labour. The reforms in unemployment security are based on a need to increase the employment rate and to develop the system so that it operates as actively as possible even at times of structural unemployment. At the same time, unemployment benefits must secure sufficient income even during prolonged unemployment.

An index adjustment was made to unemployment benefits at the beginning of 2003, and the level of labour market support was also raised correspondingly. Labour market support is a need-based benefit, whose amount is reduced by the applicant's own income and that of the spouse. In order to support the objective of activation, labour market support is not subjected to means testing during the time the recipient participates in employment policy measures. An unemployed person who takes part in training that improves vocational competence is paid an education allowance which equals the level of unemployment benefit. At the beginning of 1997, the lower age limit of the avenue to unemployment pension was raised from 53 to 55 years. Together with a positive

economic trend, this has improved employment among elderly workers.

Training of labour, practical work training and supported employment have contributed to a reduction in the number of the long-term unemployed. At the end of 2002, over 80,000 people were covered by education of employment measures. At the same time, over 35,000 people were employed with the aid of salary-based employment administration measures, while nearly 9,000 took part in practical work training or working life coaching with labour market support. The number of those employed with the aid of combined support totalled 16,000.

In addition to the long-term unemployed, it is important to focus attention on the larger group of unemployed comprising those who are repeatedly unemployed, who cannot find a job after participating in employment policy measures or who participate in them repeatedly. This group of so-called poorly employable people is to a great extent excluded from the open job market.

A precondition for a lower unemployment rate is that the unemployed are suited for the job market and thus employable. This is particularly true of the long-term unemployed, in whose case health problems, loss of competence and outdated skills, stigmatisation and clear exclusion makes it harder for them to find employment even if the demand for labour were to increase. Changes have been made to the Act on Social Assistance with the aim of improving the degree of incentive of measures promoting employment. Social assistance applicants are obliged to register as job seekers at the employment agency, unless they are unable to accept work due to reasons defined by law. An attempt is also made to increase the incentive to work with a three-year experiment (1 April 2004 – 31 March 2005), where small amounts of earned income do not immediately reduce the amount of social assistance.

The Act of Rehabilitating Work Activities that entered into force in 2001 has offered new opportunities for the long-term unemployed to enter the open job market. In 2002, a two-year joint service experiment was launched by national employment and social welfare administration and Kela. The aim of the experiment is to promote the employment, life management skills and rehabilitation of the long-term unemployed. A three-year job hunter experiment was launched the same year as a form of service targeted at the poorly employable.

The significance of various active employment measures is however still clearly lower in Finland compared to Denmark or Sweden. In the future, the number of those covered by active measures must be increased, and they must be launched at a sufficiently early stage.

Development of the service system an integral part of promoting employment

Well-functioning services and reasonable income security support working as well as returning to work and an active, independent life. Services and benefits must reflect demographic changes as well as changes in people's life cycle profiles. As the average life span increases, the number of active, functional years of life increases more rapidly than the number of years characterised by a growing need for help and support. The onset of major disabilities is postponed, occurring in older age groups than before. As the average life expectancy grows, it is important to consider various alternative models of participation in society. Flexible forms of taking up a pension are a first step in this direction.

The traditional life course does not exist to the same extent as before, due to changes in timing and contents of family life, education and the nature of the job market. The raise in the standard of living has boosted the changes in life cycle profiles and ways of life. Family life has been the subject of two types of changes: the number of children with families is showing a slight increase, but on the other hand, an increasing number of women have no children. Families with children have an average of 1.8 children. The number of families with only one child has declined, while families with three or four children have become more common.
Mothers and fathers in families with children work more commonly than men and women on average Only one in three of mothers with children under three go out to work, but the majority of mothers with older children are employed, while being a father has no impact on men's employment. They are equally employed regardless of the child's age.

The possibility to reconcile work and family life is a key factor in supporting today's parenthood. Looked at from another angle, it enables parents to participate efficiently in working life. In terms of coordinating the two, it is important that parents with young children are given an opportunity to share the responsibility for looking after their children in a flexible manner. The aim of the reforms that came into force as of the beginning of 2003 is to ensure that the system of family leave provides more versatile options that help make work and family life easier.

The family is the basic institution of society, which is why taking care of its operating conditions is necessary. The family is at the same time a social and mental safe haven for its members, a consumption unit and supplier of current and future labour. Coordinating the different roles of the families in a balanced manner is largely the task of social protection. In their own way, all the different means of social protection serve the various roles of the family, which is why they must all be developed.

Prevention of poverty and exclusion a precondition for social cohesion

Compared to most EU countries, income differentials in Finland are relatively small and the poverty rate is low. A slight increase in income differentials can however be seen. The reason behind this development is the strong growth in capital income. Poverty and long-term dependence on social assistance constitute clear risks for exclusion.

Exclusion is cumulative disadvantageousness involving long-term or repeated unemployment, problems with income, life management problems and marginalisation from social participation. Changes in the operating environment call for extremely extensive commitment to work aimed at prevention of poverty and exclusion. The prevention of poverty and exclusion must be seen as an integral part of general social policy. Individually targeted measures and programmes are needed to break off particularly difficult cycles of exclusion. Prevention of exclusion also calls for cooperation with NGOs.

Prevention and early intervention focus on the early stages of development leading to exclusion. This is the case e.g. in social protection targeting children. In their case, structural factors such as unequal life conditions get a more concrete content than before. The importance of services is emphasised in social protection that promotes activity, but income transfers and benefits do have a crucial role in securing income.

The appended summary of a separate study deals with the principles of organising social welfare services and evaluates alternative ways of financing them. The study brings forth various motivations for public service provision from the point of view of market efficiency. The high public employment rate connected to public service provision can also be used to promote employment policy measures and to have an indirect impact on income redistribution.

Key words: Welfare, social protection, economy, working capacity, social cohesion

Foreword

The welfare state of the 21st century is one that emphasises competence, encourages working and entrepreneurship, and is socially just and regionally balanced. The main objective of the cabinet of Prime Minister Matti Vanhanen is to improve the welfare state by boosting employment and by reducing unemployment, by strengthening basic services and income security, and by striving at balanced regional development. With the aid of its policy focusing on work, entrepreneurship and joint responsibility the cabinet continues to build the welfare state and society that is the result of decades of extensive cooperation between various actors.

The publication Trends in Social Protection 2003 is based on an approach which is in accordance with the strategic lines set down by the Ministry of Social Affairs and Health. The Ministry has defined the development of social protection in the coming few years in terms of four main strategies: promoting health and functional capacity, making work more attractive, preventing and combating social exclusion as well as providing efficient services and sufficient income security.

One of the aims of social policy is to maintain the economic dependency ratio on a sustainable level. The economic dependency ratio indicates how many persons are dependent on the income generated by one employed person. Social protection, which was formerly regarded almost exclusively in terms of expenditure, is increasingly seen as having an active role in promoting economy and well-being.

Good work ability is a prerequisite for an active life course and good health that last from childhood to old age. It also leaves room for individually tailored measures aimed at combating unemployment and preventing social exclusion. A high employment rate generates a setting where there are sufficient resources for providing services such as health care for the public. These services in turn promote well-being among citizens and contribute to economic growth.

Bringing about a positive development trend cannot succeed without extensive cooperation between the government, labour market and entrepreneurs' organisations as well as NGOs. They all contribute to cohesion in society, the importance of which as the basis of welfare for its citizens is increasingly important in our rapidly changing and international operating environment.

Trends in Social Protection is primarily the responsibility of the Finance and Planning department of the Ministry of Social Affairs and Health. The experts involved in production of the report are listed overleaf.

Helsinki, June 2003

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Contents

1. Economic and demographic operating environment of social protection

An ageing population structure puts pressure on the sustainability of the public economy via two separate channels. Firstly, increasing pension and health care costs will mean an increase in public expenditure. Secondly, a diminishing labour force, unless it can be compensated for by raising labour productivity and the employment rate, will slow down the growth of the economy and tax revenue. There are three main approaches that can be applied to help balance the public economy: raising the employment rate, more efficient provision of public services and development of the service structure so that it is as appropriate as possible. The first measure has a direct impact on the scale of public expenditure, and the other two emphasise the importance of efficiency and cost effectiveness in public spending in attaining the objectives of the welfare state.

As of 2004, the work force will start to diminish by about ½ % per year, unless the employment rate among the young as well as older age groups can be raised from its present level. The situation is problematic, especially in the area of social and health care, where it is possible to raise the level of productivity only to a limited degree by investing in machinery and equipment. Social and health care is a labour-intensive field, and cutbacks in labour easily lead to poorer quality. There have been attempts to solve the problem by rationalisation, careful assessment of the need of care, and priorisation of care based on the former. The aim has been to prioritise preventive action, thus reducing and delaying the need of more intensive treatment.

Along with technological advances, the structural economic change that has taken place during the past ten years has further strengthened the importance of competence as a factor maintaining productivity growth at the expense of a more traditional factor, i.e. fixed capital. Internationalisation calls for swift reacting on the part of business to changes in the market. The traditional nature of employment relationships as well as recruitment criteria have come to be considered from a totally new point of view. This is to some extent in contradiction with the fact that in the future, growth is expected to be increasingly based on competence and life-long learning. Competence is more and more based on different types of networks and refinement of information within them. Efficient and safe work communities as well as harmonisation of work and family life are required so that competence can find proper outlets.

Technological advances have contributed to increasing internationalisation, although this has not been an automatic process. Removal of obstacles to free trade and movement of labour and capital has been a recognised goal. More intensive integration and expansion to the east of the European Union will make the EU the largest economic area in the world. The expansion will have a strong impact on the economic development and production structure of both old and new member states. This opens up new economic possibilities, but it also brings with it new social risks that have to be taken into account as social protection is developed.

1.1 The WTO negotiation round

Many social and health care policy issues are linked to trade policy decision-making

and the development of a multilateral contract system regulating world trade. The service trade negotiations of the current Doha negotiation round of the World Trade Organisation WTO have progressed to a phase where WTO member states have presented country-specific requests to other member states aimed at freeing the trade in services. The member states will respond to the requests by presenting their own offers, after which negotiations will commence. It was the aim of the European Communities to present their own offer by the end of March 2003 as a starting point for the negotiations.

Within the European Union, the Commission takes part in the negotiations on trade policy matters on behalf of the member states. As the Nice Accord (2000) entered into force at the beginning of 2003, the power to act in matters of trade in services was transferred exclusively to the Union as far as the modes of supply[4] concerning trade in all services are concerned. Certain service sectors, such as social and health care services, are an exception to this, being a so-called shared competence. Shared competence does not, however, cover areas such as distribution and sale of alcohol or cigarette products or medicines. Issues such as monitoring the restrictions on the sale of alcohol or on tobacco advertising should thus be given particular attention on national level.

The starting point of the first proposal of the Convention on the Future of Europe was the idea that all trade policy issues, regardless of sector, would fall exclusively under the competence of the Union. The change in the distribution of competence has given rise to discussion in the member states, and the proposed changes have met with opposition e.g. from the French representatives.

In its initial offer the Commission did not propose any commitments in social and health care services to the member states, even though some WTO member states did put forward requests to the EU suggesting that trade in this sector be liberalised. Finland has not made commitments related to the trade in social and health care services or the services of physicians or dentists included in professional services in the General Agreement on Trade in Services (GATS). The basis for this is the statement of the Grand Committee of the Finnish Parliament from 1999 regarding the preparation for the new WTO negotiation round, stating that social, health-related and other basic services must be excluded from the liberalisation obligations of trade in the service sector.

In this process, the starting point of the Ministry of Social Affairs and Health has been the idea that multilateral international agreements should not restrict the possibility of having a comprehensive national social and health care policy. International agreements should not lead to a situation where fundamental changes are required in the national service system. When changes are made to the service system, its preventive and consumption-regulating social and health care measures must also be taken into account.

4 * There are a total of four modes of supply:

1) Cross-border supply of services (example: a Canadian data consulting comapny offers its services to Finland from Canada)
2) Consumption abroad (example: the employee of a Finnish company travels to Canada to purchase the services of a Canadian data consulting company)
3) Services provided through commercial presence in the country of transaction (example: a Canadian cosulting firm establishes itself in Finland by settting up a subsidiary or branch office)
4) Provision of services through a natural person (e.g. a Canadian consultant travels to Finland for a temporary stay to offer a service)

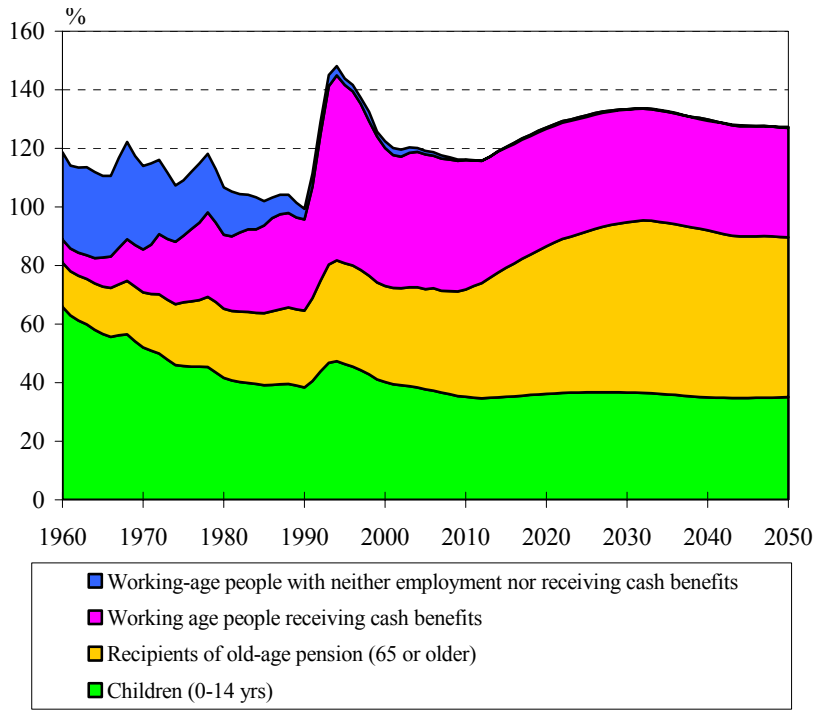
Trade policy viewpoints dominate in the GATS negotiations. There is a danger that health and social policy perspectives are not sufficiently taken into account in decision-making. The changing operating environment of the national alcohol policy is a good example of how international trade policy commitments have reduced the means to influence national alcohol policy, thus affecting one of the instruments used to regulate public health.

1.2 Challenges facing social protection in the coming decades

A positive economic trend is a necessary precondition for comprehensive and sufficient financing of social protection, but it is not enough. Changes in the age structure, increasing internationalisation of the economy and technological advances are changing the operating environment of social protection to such an extent that extensive and simultaneous measures are called for in several sectors of the society.

On a national level, the change in the economic dependency ratio in a more unfavourable direction around 2010 is the most significant challenge facing the financing of social protection. After the change, the number of persons outside working life receiving benefits will be clearly higher than that of employed persons. A particularly significant factor contributing to this trend is the change in the population age structure, as the baby boom generation reaches retirement age, people live longer than before and birth rate is low (see Figure 1).

Figure 1. The economic dependency ratio and its components: the trend from 1960 to 2002 and a projection until 2050, % of employed persons



If the weakened economic dependency ratio were mainly caused by the fact that the large post-war cohorts are getting older, the problem would be a temporary one and would disappear along with the baby boomers by 2050. Since the birth rate is lower and the average life expectancy is longer than before, the age structure will be permanently different from what it was in the past decades. The situation will also become permanently more challenging in terms of financing of social protection, because the structural change will lead to an increase in cash benefits as well as social and health care expenditure and a decrease in working-age tax payers. Thus it seems obvious that temporary measures are not sufficient to respond to theses challenges, but structural changes are called for as well.

Another key factor affecting the economic dependency ratio is employment. The onset of the reduction of the work force as of the beginning of 2004 will weaken the possibilities to finance the welfare state and endanger economic growth.

The financing of social expenditure is most of all based on a high employment rate. Widespread unemployment and early retirement boost the impact of the demographic changes even further, because they increase the expenditure on cash benefits and diminish the financial basis of social protection. As the number of working-age people goes down, existing resources should be used more wisely. This means lowering unemployment, increasing people's participation in the work force and longer careers. Under-use of resources, inefficiency and poor productivity weaken the possibilities to finance social protection and lead to reduced welfare. The immigration of competent workers from abroad could help alleviate some of the effects of the change in age structure, but it cannot solve the problem.

If we succeeded in raising the employment rate, it would take off some of the pressure to raise social insurance fees and help keep the tax rate at a reasonable level. On the other hand, a reasonable tax rate promotes a positive employment trend and the overall level of competence.

Even if the average development trends in economy were to remain positive, regional diversification poses a major challenge. Simultaneous ageing of the population and increased migration makes it hard to ensure welfare services to all citizens. On the other hand, the problem is how to guarantee a variety of high-quality services to people living in sparsely populated areas suffering from migration loss, and on the other, how to be able to offer services for the increasing population living in centres of growth in southern and western parts of Finland.

In addition to domestic factors, social protection and its financing are also affected by changes in the international operating environment. The globalised world economy and the increasing pace of technological development make it harder to predict economic trends, and in many cases reduce the significance of national borders. Economic decisions made within the European Union have an impact on social policy and financing of social protection in the member states. In addition to national issues, international factors and the actions of competitors in the market must therefore be taken into account more often when making decisions concerning social protection.

Changes in the international operating environment pose both an opportunity and a threat for the welfare society. If we are successful in making use of increasing internationalisation and new technology, the result may be increased productivity and faster economic growth. This would

provide more opportunities to raise the level of overall real income and welfare.

On the other hand, internationalisation may lead to a detrimental tax competition, where attempts are made to lower costs by removing taxes and tax-like contributions, which weakens the ability of the public sector to finance social benefits and services. Internationalisation inevitably leads to tighter competition, which increases the importance of logistics and business location. Increasing international competition also calls for reassessment of social protection, its efficiency and targeting. In a changing world, a welfare state is also expected to be dynamic and to provide incentives.

Growing inequality also poses a threat, if major changes in the operating environment lead to greater income differences and exclude weaker individuals from the job market. In such a situation, social protection lessens the uncertainty related to the changes and alleviates the social and economic problems brought about by economic changes.

The SOMERA committee whose task it was to study trends in social expenditure and their financing estimated how social expenditure and financing will develop in the future based on current legislation.

The key premises of the calculation are as follows:

- The birth rate is close to the level of 1997-2000.
- The decrease in mortality continues, but at a slower rate. The trend in mortality corresponds to the prognosis of the EU.
- The net volume of immigration is 5,000 persons per year.
- The unemployment rate goes down to 6 % in a long-term perspective.
- The employment rate gradually goes up to 71 %.
- The annual inflation rate is 2 % .
- The real growth of productivity is 1.75 % per year.
- Functional income distribution remains close to the current level.
- The yield in real terms of fund investments in the employment pension system is on average 3.5 %.

As the age structure changes, the growth of employment pension expenditure will start to accelerate at the end of the current decade. In the 2020s and 2030s social and health care expenditure will also increase, as the number of very old people and their need of care grows.

In the next few years, the share of social expenditure of GDP will remain fairly constantly at the current level of about 25 %, but towards the end of the decade, the share will start to go up (see figure). It is estimated that by 2030 the share of social expenditure of GDP is close to 30 %, and will remain thereafter at a fairly high level until 2050.

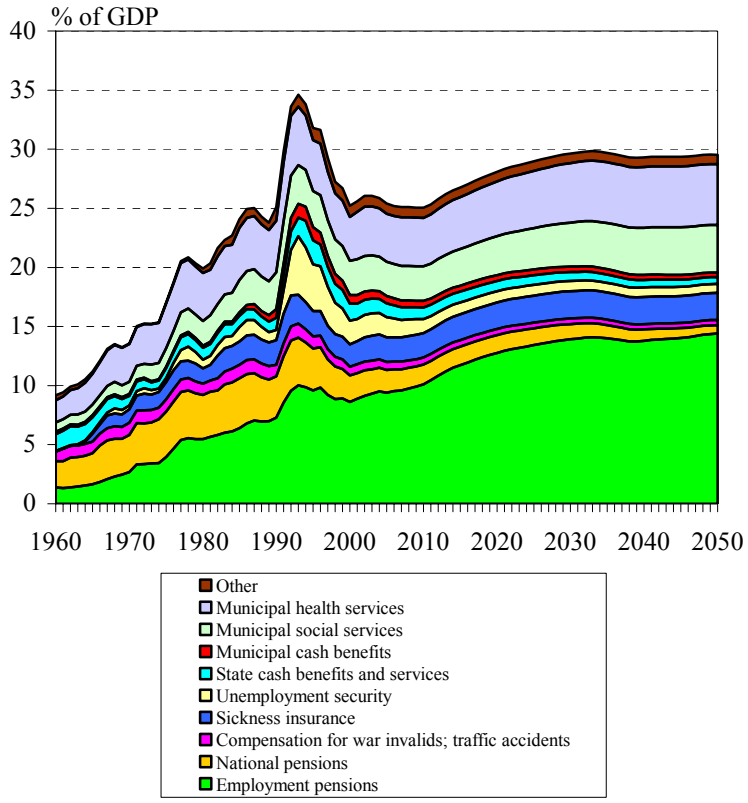
Employment pension spending as a percentage of GDP will go up by about 6 %, but due to the diminished expenditure on national pensions, total expenditure on pensions will increase by about 5 %. Municipal social and health care spending as a percentage of GDP is expected to go up by about two percentage points between 2000 and 2030.

As social expenditure as a percentage of GDP continues to grow, the need for financing will also increase. With a few exceptions, social spending is financed with taxes and social security contributions included in the gross tax rate. According to the basic scenario, no significant raises to pension contributions are needed in the coming ten years or so, if the sum total of pension fees continues to show a favourable growth trend and the real return on employment pension capital is 3.5 % as

supposed in the calculation. According to the calculation, private sector social security contributions will grow by about 7 percentage points by 2030, so that their share of the sum total of wages is 36 %, while municipal social security contributions remain at their current level, at about 36 %. Social and health care expenditure will also increase, but according to the scenario, the gross tax rate is not expected to go up much, provided that the share of other public expenditure, such as education, diminishes as the population ages and the expenditure share of interest payments goes down as the government debt is reduced. Pension funds also help reduce some of the pressure to increase the level of pension contributions.

The calculation of the SOMERA committee shows that it is possible to finance and guarantee social protection based on the current foundation in the future as well. It also seems that in the event of a positive economic and employment trend it will not constitute an unreasonable obstacle to competition, because the age structure is getting older and social expenditure is growing in other industrialised countries as well.

Figure 2. Trends in social expenditure in Finland between 1960 and 2000, and a projection for 2050, % of GDP



Calculations and predictions spanning several decades involve a lot of uncertainty. The changes and increasing complexity in the national operating environment make it even harder to predict economic trends. The results of the calculation presented above will change fundamentally, if the economy, employment or demographics evolve in a different direction than the one foreseen in the calculation.

1.3 State budget and municipal economy in 2003

In addition to long-term economic growth, short-term economic balance has a decisive impact on the sustainability of public economy. Providing social and health care services for all groups of people in the entire country calls for balanced development of municipal economy, ensuring accessibility of services aimed at groups needing special assistance, cooperation between municipalities and the adoption of new operating models.

The sum total of the 2003 state budget proposal comes to € 35.8 billion. The main division of the Ministry of Social Affairs and Health accounts for € 8.5 billion of the total sum, which is some € 370 million more than in the final budget for 2002. The Ministry of Social Affairs and Health's budgetary funding will cover a good fifth of all social protection expenditure, in addition to financing from other main divisions. Altogether around one third of social protection will be financed through the state budget.

Most of the Ministry of Social Affairs and Health funds go to finance government grants to municipalities, sickness insurance and pensions. The most important increases in the 2003 budget proposal affect government grants to municipalities, the development of the health care service system, the harmonisation of work and family life as well as raising the minimum level of sickness allowance and parenthood allowance.

The budget proposal continues to apply measures aimed at preventing and combating exclusion. Establishing the system of social credit in the entire country continues the work of a three-year municipal experiment. During the experiment, social credit was shown to be an effective method in carefully planned social work to boost the economic functional capacity of clients and to prevent exclusion. Municipalities are responsible for the capital, securities and implementation of social crediting. Separate funding is proposed for the treatment of drug abusers for next year as well. In addition, a new separate € 5 million allocation is proposed for services aimed at children and young people at risk of exclusion. The objective of the allocation is to strengthen networks supporting the positive growth of children and welfare of families as well as to promote cooperation between professional helpers in different fields.

The increase of government grants to social and health care spending continue in the 2003 budget proposal. The government's share of financing social and health care planning and the costs in accordance with the Act on Government Grants will go up from 25.36 % to 27.01 %. Compared to the 2002 budget, government grants show an increase by € 254 million. The largest increases in government grants go towards improving health care services and the National Health Care Project. Government grants will go up by € 98 million, based on the proposal aimed at improving health care service put forth by parliamentary groups representing parties in the government. Government grants related to ensuring an efficient social and health care system and the implementation of the National Health Care Project will be raised by € 57 million. Financing of the project was already commenced in the additional budget for the year 2002, where a separate allocation of € 25 million was proposed to help shorten the long queues of patient waiting for treatment. An index adjustment of 1.4 % was made to government grants, corresponding to one half of the estimated change in level of costs.

In order to improve the possibilities of employers to employ more people, an experiment will be carried out between 2003 and 2005 where employers and state-owned companies in most of Lapland and some communities in the archipelago are exempted from social security contributions. To make up for the deficit, the general health insurance contribution paid by employers will be raised by 0.014 %. The national pension payment paid by employers will remain unaltered. A health insurance payment and employer's social security contributions will begin to be charged from persons living abroad who maintain the right to Finnish social protection. Health insurance payment paid by the insured will remain at its current level, 1.5 % of salary income, but the extra health insurance payment levied from pension recipients will be abolished.

It is put forth in the budget proposal that the basic and income security of the unemployed be reformed on the basis of the agreement reached between social partners in November 2001. The full basic daily allowance will be raised by € 0.39 to € 23.14 to adjust for inflation. Severance pay is replaced by paying out an increased earnings-related daily allowance for a period of 130 days at the most to persons with a long work career. In addition, the terms for entitlement to earnings-related daily allowance are altered with respect to conditions related to employment, adjusted daily allowance and daily allowance for entrepreneurs.

In 2003, an entirely new form of social security benefit will be implemented, namely a special benefit for immigrants. Immigrants aged 65 or more, or who are unable to work are entitled to the benefit as of 1 October 2003, provided that they have resided in Finland for a minimum of five years. The benefit is subject to means testing, meaning that both the applicant's own income and assets and those of his/her spouse are taken into account.

The minimum level of sickness and parenthood allowance was raised as of 1 January 2003. No basic or index adjustments have been made to the current minimum level. The minimum daily allowance, now standing at € 10.09, is estimated to go up to € 11.45. Funds aimed at rehabilitation tied to budgetary appropriation will be increased. The number of medicines covered by special reimbursement will be increased. The use of less expensive generic drugs when prescribing medicines is one way of cutting increasing drug costs. The health insurance co-payments paid by beneficiaries will also be raised.

The amount of financial support to joint municipal projects has been increased in the administrative sector of social and health care. 2003 is a significant year for promoting development, as the reform of the project establishment systems comes into effect. There are resources to the amount of € 8 million which were formerly mainly used for construction that can now be used for social and health care development projects, and an additional € 8 million for projects related to the implementation of the national health care project.

According to the economic trend review published by the Ministry of Finance in March 2003, the growth of the public sector has been relatively slow in the past few years, and spending pressure has been building up. The public surplus in particular has diminished significantly since the peak level of 2000. However, the public surplus was larger than expected last year, 4.7 % as a proportion of total production. This was mainly due to some exceptional tax accounts. In 2003 the surplus shown by public entities will go

down to 2.5 %. The key reason for the weakened economic position of the public sector is a weakening of economic trends. The public surplus is thus entirely dependent on social security funds, particularly employment pension funds.

In 2000, the state of municipal economy remained relatively good, looking at the municipal sector as a whole. According to the final accounts estimates compiled by Statistics Finland, the aggregate annual margin of municipalities continued to show a light upward trend for the fifth year in a row. The estimates show that the aggregate annual margin of municipalities and joint municipal authorities totalled € 2.0 billion in 2002, which was about € 0.1 billion more than the year before. The annual margins in the municipal sector clearly exceed write-offs and depreciation, but they were not quite sufficient to cover net investments. In 2002 the annual margin was negative in 52 municipalities according to the final accounts estimate, while the corresponding figure in 2001 was 117 and in 2000 193 (the 2000 figure is not fully comparable to the newer ones due to changes in tax accounts and accounting practices).

The diversification trend between different groups of municipalities that became evident towards the end of the last decade began to diminish somewhat in 2001. This is seen particularly in changes in tax-based financing and government grants to municipalities compared to previous years. Despite the slight evening out of the diversification trend, larger municipalities continue to be in a more favourable position compared to smaller ones. The measures aimed at balancing municipal economy will help diminish the economic differences between municipalities even further. The 2002 state budget included a measure intended to increase municipal economy: discontinuation of the claim for recovery of value added tax and its set-off mainly from company tax, an increment in government grants to remote areas and island municipalities, and the removal of the 15 % limit in the equalising of government grants based on tax revenue. The reform of the redistribution of tax revenue led to a drop in state spending (by € 88.6 million), but the government grants towards financing municipal social and health care costs were raised by the corresponding sum.

According to the estimate of the Advisory Board for Municipal Administration and Economy in 2003, there will be a clear weakening of the financing status of municipalities in 2003, and the uncertain development trend is estimated to continue in the coming few years. The Advisory Board predicts that the level of annual margin in the municipal sector will go down by as much a good third from the current level between 2003 and 2007, i.e. to about € 1.2 billion. Lower annual margins are not sufficient to cover annual write-offs of capital assets. It is estimated that government grants and the rise in tax revenue are not enough to cover the rise in operating costs, which is why changes in the structure of income and expenses and/or loans will have to be resorted to in the municipal sector. The total amount of loans taken by the municipal sector is predicted to increase by as much as € 1 billion from the current level, and the level of investments is estimated to decrease correspondingly.

Operating costs of municipalities have shown a relatively strong upward trend in recent years. In 2002, the increase was about 6 % compared to the year before. Employment costs and the use of purchased services have grown in particular. This is partly due to the fact that demand for services has gone up. The rise in operating costs is expected to level off somewhat in the coming four years thanks to moderate cost development.

Table 1. Key indicators of municipal economy, € billion

	2001	2002	2003	2004	2005	2006	2007
Operating margin	-15.0	-15.9	-16.5	-17.1	-17.7	-18.3	-19.1
Tax revenue	14.1	14.0	13.5	13.9	14.3	14.9	15.3
Central government grants for current expenditure *	3.7	3.9	4.2	4.3	4.4	4.7	4.9
- of which, administered by the Ministry of social Affairs and Health	2.4	2.5	2.8	2.8	2.9	3.1	3.2
Other expenses, net	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Annual margin	1.9	2.0	1.3	1.2	1.2	1.2	1.1
Investments, net	2.3	2.1	2.0	1.8	1.8	1.8	1.8
Total outstanding loans	4.3	4.8	5.1	5.4	5.7	5.9	6.3
Cash assets	3.1	3.4	3.3	3.1	3.0	2.9	2.8
Net liabilities (total outstanding loans – cash assets)	1.3	1.4	1.9	2.3	2.7	3.0	3.5

The figures in the table are based from 2002 onwards on preliminary data or forecasts
* According to municipalities' own account
Source: Advisory Board for Municipal Administration and Economy, 14 February 2003

Municipal tax revenue and government grants are expected to increase slightly in the coming few years, but not sufficiently to compensate for the rise in expenditure. At the same time as municipal economy is expected to show a negative development trend in the coming four years, the municipal sector should be getting ready to face the challenges of the next few decades in terms of increased need for services and availability of labour.

The financing position of municipalities will become more difficult 2003, and the annual margin is not sufficient to cover new investments as far as the entire country is concerned. From 2004 onwards the aggregate annual margin of municipalities will remain clearly below the level of net investments, even if investments were to remain on the 2004 level. It is thus to be expected that the amount of net loans taken on by municipalities will grow.

The sum total of municipal tax revenue will go down in 2003. This is most of all due to the diminished amount of tax revenue coming from options granted to shareholder-employees and capital income, tax cuts on earned income and the diminished revenue from company taxation. Even though government grants will show a significant rise, it is not sufficient to compensate for the loss in tax revenue. Tax revenue and government grants are expected to show growth from 2004 onwards.

This development trend will inevitably lead to a situation where decisions will have to be made on the level of municipalities and joint municipal boards to curb costs, reform the service structure and to increase cooperation between municipalities.

Figure 3. Annual margin of municipalities and joint municipal boards, 2001-2007

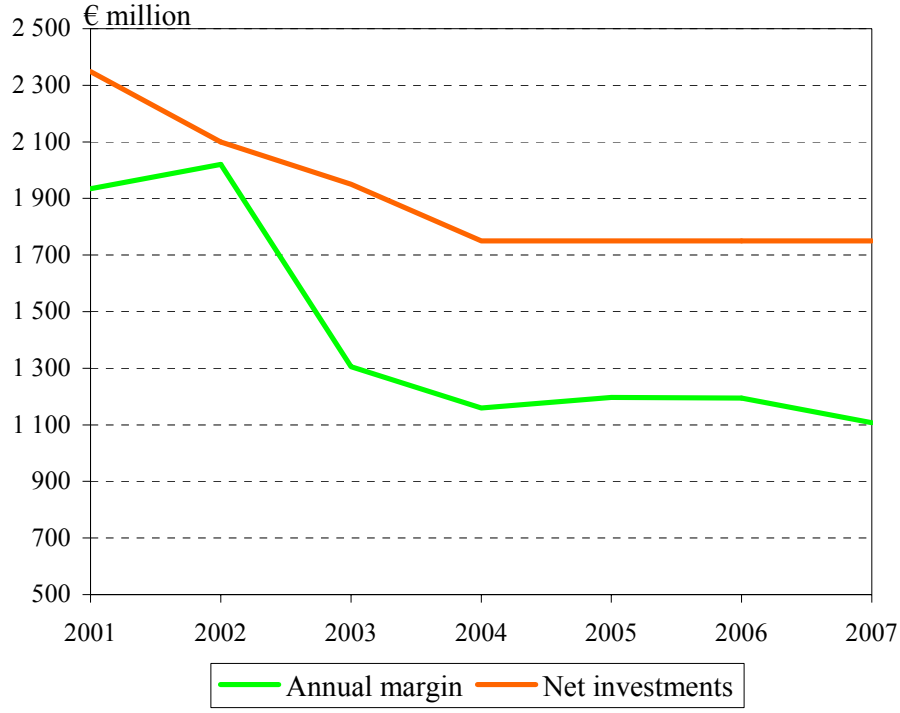
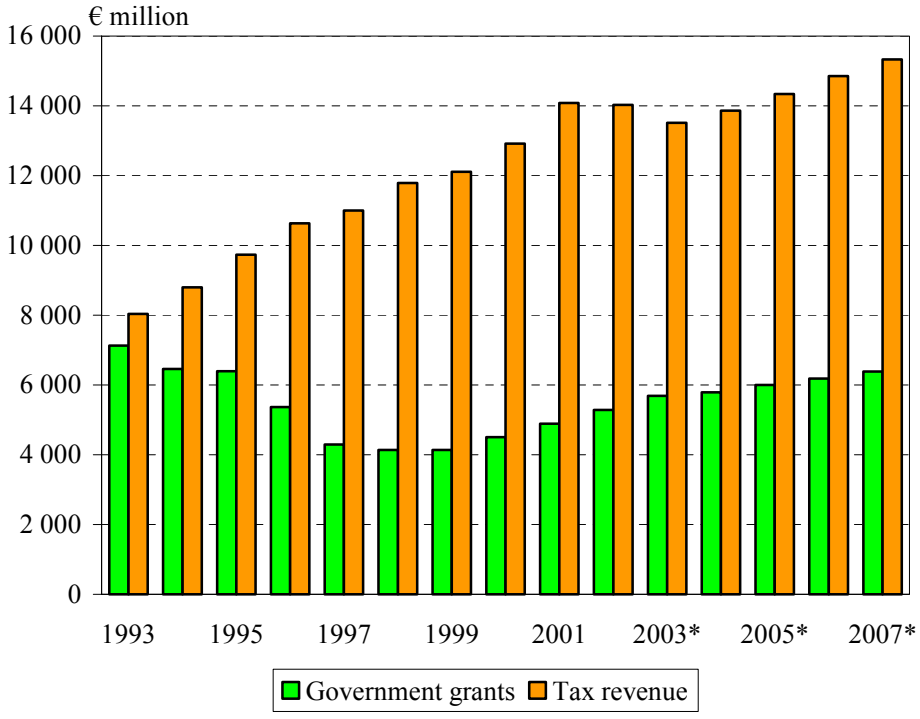


Figure 4. Government grants and tax revenue between 1993 and 2007



2. Adjusting the welfare state to the changes

The Scandinavian welfare state aims at ensuring both the quality and economic productivity of community life and that of the individual. Human welfare is seen in a broad perspective, with emphasis on the concepts of involvement and participation, so that economic well-being is part of the whole. This perspective puts a strong emphasis on the quality of both economic and social development.

The sustainable development of the welfare state involves taking care of three basic factors simultaneously: the technical-economical, the social and the ecological dimension. Development is not the sum of these factors, but their product. This means that if one of the factors is weak, development no linger has a solid foundation.

Taking care of human resources, i.e. the social dimension, has occupied a central position in the Finnish way of thinking. These values are highly communal in nature, emphasising the importance of work and family. It is thus not surprising that the majority of the people consider the welfare state to be worth its cost.

Good social security and a balanced economy will constitute the foundation of the welfare state in the future as well. Economy has shown rapid growth following the years of recession, the standard of Finnish education is high, and in many business sectors our competence ranks among the highest in the world. In spite of this, maintaining and developing social protection is subject to very strict marginal conditions.

In all states of the national economy, state and municipal economy, business economy as well as individual household economy, decision-makers are forced to make choices as to objectives, means, obligations and benefits. The choices are about the balanced use of limited resources, but there is more to it than that. The battery of means used to provide social protection must also be evaluated from the point of view of the behavioural effects desired. Clear-cut value-based choices have to be made, and new future risks must be predicted.

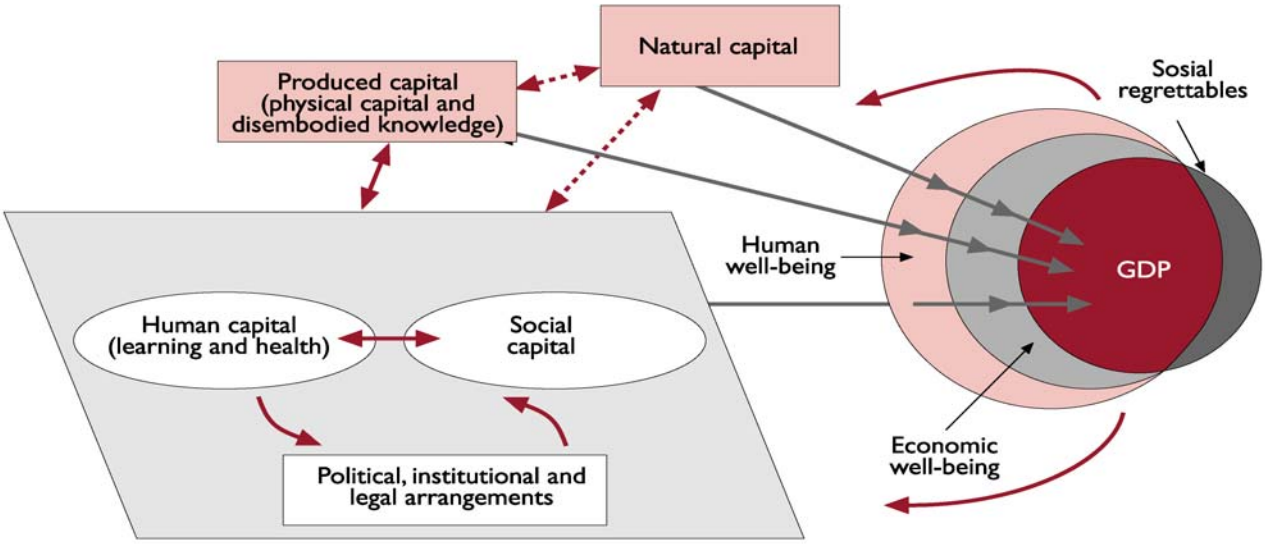
2.1 Connections between well-being and the economy

Well-being consists of social, health-related and economic welfare and various civil liberties and rights. Economic well-being can be looked at in the form of possibilities to consume, changes in wealth, including both physical and mental capital, changes in income distribution and changes in economic risks.

Economic growth emphasises the full utilisation of resources. Unemployment is seen as under-use and waste of resources. It is however a paradox that growth of the economy and productivity may lead to increased unemployment in some areas, when the same level of productivity can be achieved with a smaller number of employees. The increase in well-being brought about by growth is not necessarily evenly distributed. When talking about the economy and well-being, problems and possibilities take a different shape on the level of macro economy compared to the level of companies and individuals, but there are links between the two levels. Looking at the different levels of well-being and the economy within a common matrix is well motivated, although far from easy.

The best results in this may have been achieved with the aid of a matrix developed by the OECD. It attempts to place well-being and economic connections in context with political, social institution and legislative systems. The concepts of human and social capital are used as an aid in the process.

Figure 5. Basic connections between well-being and economy



Source: OECD 2001

According to the matrix, human capital consists of competence, education, knowledge and social skills. Human capital also includes health as well as working and functional capacity. Competence is seen as a life-long process, the capacity to learn as well as depth of competence brought about by experience.

The growth of human capital means an increase in competence, and thereby an increase in productivity. As a production factor, human capital differs from the use of work force in that it does not follow in the same manner the rule of lower production with increased use.

If the concept of human capital helps expand and make more accurate the concept of workforce as a production factor, the concept of social capital and its basis goes beyond the scope of economics. Social capital emphasises interrelations and connections, and the concept describes the characteristics of groups of people, communities and in a broad sense even of cultures. It is a question of norms, widely internalised common or sufficiently uniform values that create trust and security within communities and the entire society. Social capital is about social cohesion, the fact that the institutions needed exist and that they also operate in an interactive and effective manner.

Social capital can partly be seen to consist of various unwritten "agreements" that welfare policy has been built on. There are at least four such agreements: the solidarity, gender, normal employment relation and generation agreement.

According to the solidarity agreement, the weak must be looked after. The aim of the gender agreement has been to guarantee that both men and women have equal

opportunities to participate in working life and social activities. According to the normal employment relation agreement, continuous paid employment forms the basis of life. The generation agreement regulates expectations, responsibilities and obligations between generations.

The lack of social capital is seen as difficulties in mutual operation: the agreements can no longer be trusted to be binding, risks of many kinds and uncertainty eat away at the resources of individuals, businesses and the society.

It is the task of social capital, institutional structures and legislation supporting them to make sure that the operation and behaviour of different units, such as the public economy, businesses, households and individual citizens is as rational as possible from the viewpoint of the system as a whole, not just from their individual perspectives.

2.2 Harmonising effectiveness and justness

The challenge of the current century is to adjust the operation of the welfare state to the challenges posed by changes in the age structure, by globalisation as well as by technological advances and economic development. In an ideal world, market mechanisms bring about an efficient distribution of resources, but there are no guarantees as to its fairness. The market and competition are not able take care of all socially important and necessary institutions and functions, which is why public sector interventions are needed.

The advantages achieved by welfare policy always involve costs. Policy choices must be made when making decision as to how services are to be provided: what services should be provided by the private sector, when is intervention from the public sector or a combination of the two needed? Strategy choices must be made in terms of production and financing and the scope of operation.

In addition to services, resource allocation in social protection also involves income transfers. Part of them come in the form of income adjustment throughout the life on an individual, some are income transfers between people, based on reasons such an unemployment or sickness. Part of social insurance should be provided though public sector interventions, but some responsibility can with good reason be handed over to the private sector.

In public debate over social welfare, a clear distinction must be made between the scope, i.e. the volume of the operation of the public sector on the one hand, and the claims related to its spending structure on the other.

In terms of structure, the question is whether a desired well-being objective can be achieved more efficiently through efforts of the public or the private sector. The perspective is one that emphasises the allocation of resources, in other words microeconomic.

The scope of operation addresses the issues of the amount of resources required by public spending. The focus is on the balance of public expenditure and income, i.e. the sustainability of financial policy. The perspective is a macroeconomic one.

The is a great risk for misunderstanding if the efficiency of the public sector is assessed solely on the basis of the argument focusing on balanced financial policy. In simplified terms, the microeconomic viewpoint can be formulated as follows: What is the most effective way of taking care of the social welfare task, when there is a fixed public

sector framework as to the size of the spending budget.

Problems of balance of the public economy have been a feature of the debate over economy policy since the 1970s. The European Economic and Monetary Union has placed increasing emphasis on the importance of the balance of the public budgets of its member states. A look at the scope of public economies emphasises the connections between financial and monetary policy. Monetary policy is handled jointly on the level of the European Union and its key objective is price stability. Financial policy falls under national competence, but it is regulated by the conditions of the Amsterdam Growth and Stability Pact.

The public sector has both a direct and an indirect effect on employment and economic growth. This is why the European Union Commission has focused its attention not only on the volume of public expenditure, but also on its ”quality”. By quality the Commission refers to the differing impacts on economic growth and employment of different spending categories. Microeconomic efficiency will continue to be a condition for attaining economic growth and better employment within the European Union. Appendix 1 takes a look at the relation between public spending and economic growth, and the impact of different public spending components on growth and employment.

2.3 Strategies for social protection 2010

In its publication *Strategies for Social Protection* the Ministry of Social Affairs and Health has defined the strategic intent of the Finnish society as follows:

Our vision for 2010 is for Finland to be a socially and economically sustainable, efficient and dynamic society. The Finnish social protection system will be based on comprehensive collective responsibility. Finland will also be actively involved in shaping European social policy. The wellbeing in our society will be rooted in the maintenance of working capacity and general functional capacity allied to individual initiative.

- People will stay on at work for approximately 2-3 years longer than now.
- The general functional capacity of the population will have improved and elderly people will not need care until a more advanced age.
- The health differences between population groups will have been reduced.
- Preventive action will have secured its position as a normal area of social and health care.
- The availability and quality of services will have been improved through sufficient resources and increasing regional cooperation.
- Environmental, transportation and communication accessibility will form the basis of planning.
- Income security will secure a reasonable income for people while still providing an incentive to work to people of working age.
- Social protection will have a sustainable financing base based on collective responsibility and complemented by individual responsibility.
- Social cohesion will have improved and poverty in Finland will remain on the low level of the last few decades.
- The well-being, growth and development into balanced adulthood

of children and young people will be guaranteed.
- Wage differences between men and women will have been reduced, work and family life are harmonised in a flexible manner, the amount of fixed-term employment relationships will have been reduced, and there is less violence against women and children.
- In decision-making and monitoring, there will be access to a knowledge base that is as high-quality and comprehensive as possible

The strategies of the Ministry of Social Affairs and Health for attaining the objectives are as follows:

- Promoting health and functional capacity
- Making work more attractive
- Preventing and combating social exclusion
- Providing efficient services and income security

The strategies have both a legislative and operational content. They constitute the main headlines for a variety of laws. At the same time, a number of the Ministry's operating objectives are crystallised in them, having simultaneously a connection with more general economic objectives and well-being objectives.

Promoting health and functional capacity is a strategy that clearly serves social well-being policy, even though it does have an economic function as well: a healthy workforce with a high functional capacity is one of the preconditions of a functional economy. The foundations for health and functional capacity are laid in infancy, but their importance is by no means lessened in old age. A service and income security system covering the entire life span is needed, and this has been formulated into a separate strategy.

As a strategy, increasing the attraction of work reflects the worry over a sufficient supply of labour, and thereby of the preconditions of economic growth. It also refers to the worry over the financial basis of social protection: early retirement makes it significantly more difficult to finance pensions.

In the provision of welfare services, labour intensity, high technology, nationwide service, and the provision responsibility of the public sector are combined with certain roles of the private and third sector, and financing is linked to taxation, government grants, client fees and benefits paid out to clients. The operation must be long-term, both as to investments and the availability, sufficiency and education of staff. To gain a comprehensive overview of the situation as a whole and to have control over it is thus a very complex and demanding task. The overall system and the provision of services is regulated by means of statutes, resource allocation and information guidance, and increasingly also by making use of the market mechanism.

The impact social protection has on the way people behave and the choices they make adds its own mark to the complex issue. The provision of services is not necessarily sufficient, and their financing and pricing is often wrought with problems. When it comes to various benefits the situation becomes even more complicated. They can regulate the way people behave in a very powerful manner indeed. This means that the goal must be to find a balanced combination of benefits and incentives.

Preventing and combating social exclusion is a relatively new strategy, but it is nevertheless a very important one. In spite

of the safety net provided by social protection, some people seem to ”fall through”. In a way, the fact that social exclusion exists is an indication of shortcomings in the social protection system. Exclusion does however have a more profound significance as an indicator on lack of social cohesion.

The strategies show the desired direction of development, and they also carry with them a battery of means.

With the aid of the strategies, the welfare state is being adjusted to necessary changes. This is not a question of some single action, but an attempt to influence basic structures and institutions in order to lay a solid foundation for reform.

2.4 The recommendations of the SOMERA Committee

Even though social expenditure will not start to increase significantly until the next decade, the challenges posed by financing of social protection already call for decisions at this stage. The SOMERA Committee (Committee on the Development and Financing of Social Expenditure) which gave its report in spring 2002 presented a total of ten recommended measures:

- The promotion of work and functional capacity should be made a central principle of social protection
- Working careers must be extended by at least 3 years
- Benefits must be correctly proportioned in relation to earnings
- The rise in pension expenditure should be as smooth as possible
- Minimum security must be adequate
- Support must be given to new families and young children
- Access to services must be improved, financing systems changed and operating methods made more efficient
- Finding a functional steering model for the relationship between central and local government and service providers
- Improved clarity, transparency and incentives in financing
- The costs and effectiveness of social protection should be evaluated regularly in a long-term perspective

The work of the committee showed that extensive consensus exists between the most important interest groups regarding these key strategic lines. If these strategic lines of the committee are realised, the sustainability of social protection and its financing will improve. Activation measures might initially lead to a rise in social spending, but in a more long-term perspective they would slow down the rise in social expenditure and lead to improved management of the public finances.

2.5 Government Programme

According to the government Programme of the cabinet of Prime Minister Anneli Jäätteenmäki (17 April 2003), promotion of health among the population, prevention of illness and supporting life management skills, working and functional capacity as well as individual initiative are the central objectives of social and health care policy. Health care and social policy must be developed side by side, and their goals must be uniform. The National Health Project and the Social Development Programme provide the foundation for this work.

The goal is to reduce health disparity among the population by means of health and social policy measures and by promoting the well-being perspective in decision-making and operation in the

society. Public social and health care services must be equally available to all citizens, and they must be primarily financed with tax funds. The aim is to secure accessibility, quality and sufficient amount of care based on people's needs in different parts of the country, regardless of the client's ability to pay. The position of primary health care will be strengthened.

According to the Government Programme, the resources of public social and health care will be increased. Competence, service structures and operating procedures will be developed in the long term jointly with municipalities in accordance with the principal decision of the National Health Project. The stability of government financing, guidability and the degree of incentive is increased. The size of government grants to social and health care as well as their percentage share of financing will be raised, and part of them will be used to further the aims of the Social Development Programme.

In order to the secure availability of staff in the social and health care sector, their salaries and career development, working conditions and continuing education are taken care of in an appropriate manner. To help ease the shortage of doctors, sufficient resources are allocated to education.

According to the Government Programme, social and health care fee policy will undergo an extensive reform, so that fees will not prevent people who have limited means and who are ill a lot from seeking treatment. The medicine refund system will be reformed.

The most important task of the government's economic policy is to increase employment by at least 100,000 persons by the end of its mandate. In order for this goal to be achieved, strong economic growth as well as cooperation between the government and labour market and entrepreneurs' organisations is called for throughout the government's mandate. The aim is also to reach 75 % employment by the end of the next government mandate.

Economic growth must be more employment intensive in nature than before. As the level of competence of the workforce is increased, better conditions must be provided for creating job opportunities also for the less educated who lack special skills or competence. Raising the employment rate requires solutions that make it easier to combine work and family life.

Securing economic growth calls for focusing on the amount and quality of the supply of labour. People must be made available to the job market earlier, and they must leave it later than at the current moment. The aim must be for skills and competence of the work force to meet the needs of working life and the business sector more accurately that at the moment. The level of competence and work capacity of the entire work force, and especially those who find it hard to find employment must be improved. While the working capacity of the work force is seen to, maintaining the functional capacity of non-active population must also be prioritised. Social and health care play a key role in the attainment of these goals.

The Government Programme emphasises the links that social and economic policy has to wider wholes, reaching across borders between administrative sectors, the public and the private sector and the operation of NGOs. The Government Programme includes four such policy programmes: the employment programme, the entrepreneurship policy programme,

the information society programme and the civil influence programme.

In the civil influence programme, the viewpoint is that of promoting social cohesion and participation. The aim is to increase civil participation, improve its the conditions and promote inclusion into society. All these aims also include social and health care aspects.

The goal of the employment programme is to raise the employment rate and to prevent exclusion caused by unemployment. The entrepreneurship policy programme aims at extensive promotion of the preconditions of business and entrepreneurship. The information society policy programme aims at making use of the possibilities offered by the information society.

3. Promoting health and functional capacity

The aim is for the positive development trend in health and well-being among the population to continue and for health differences between different population groups to be reduced. The means to achieve this goal include continuous development of social and health care operations that cross administrative borders. The position of preventive social and health policy must be strengthened.

Good health is one of the basic preconditions for human well-being. An individual's state of health is also directly linked to working capacity, which is again a precondition for the ability to work and cope independently. In addition to genetic traits, the state of health is influenced by lifestyle and the biological, chemical, physical and social characteristics of the environment – home, area of residence, traffic, school, workplace and nature. Health and social policy must be developed side by side, and with uniform goals.

Health policy and health information have traditionally been used in an attempt to influence people's lifestyles and to promote health. This is not enough – it is equally important to influence society and the environment as a whole, so that health aspects are taken into account in all social decision-making at a sufficiently early stage. Health is increasingly affected by international measures as well. International cooperation focuses on communicable diseases, tobacco, chemicals and risks involved in substance abuse.

The basis for lifelong health and functional capacity is created in childhood. That is why special attention must be focused on the environment in which children grow up, and sufficiently early intervention in children's illnesses and symptoms is of great importance. Particular attention should be given to mental health problems and their prevention among children, and early access to treatment should be a priority. The support measures aimed at disabled children and their families must be developed further. This calls for extensive cooperation between different authorities and other actors in the field to help parents bring up their children and strengthen their support networks.

According to a report by an international group of experts working for the World Health Organisation (WHO), Finland is the leading country in the field of health promotion. Work in this field has been carried out with a long-term perspective, and there is proof of its positive effects on the health and functional capacity of the population. In future, heath promoting activities must be developed on local level. In municipalities, the idea of health must be extended outside the scope of the health care sector, and groups representing several administrative sectors must be set up to this end.

3.1 General state of health is good, but obesity is a problem

According to the Health 2000 study, the health and functional capacity of grown-ups in Finland has clearly improved in 20 years. An increasing number of people assess their own state of health as being good or relatively good (Figure 6). This positive trend is particularly in evidence

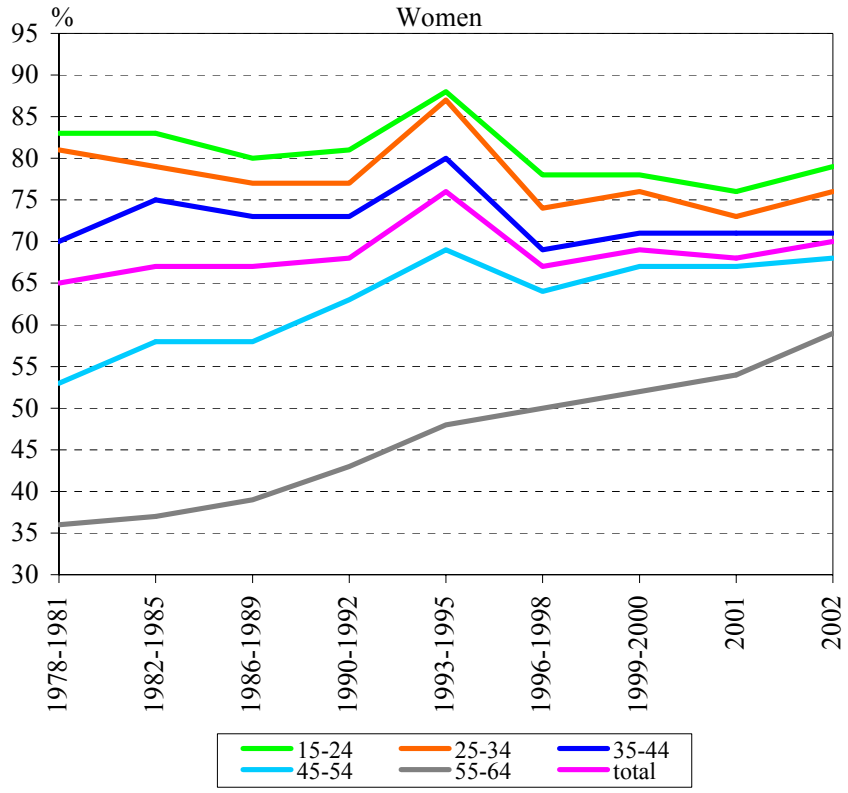
among people over 45. Other indicators of a positive development trend include a lower incidence of coronary artery disease, lower blood cholesterol and blood pressure levels particularly among the older age groups, and improved working capacity and better functional capacity among the elderly, particularly women (Figure 7). There are fewer people who subjectively feel themselves unable to work, which makes it possible for people to stay on longer at work. Problems with working capacity are still common after age 55, however.

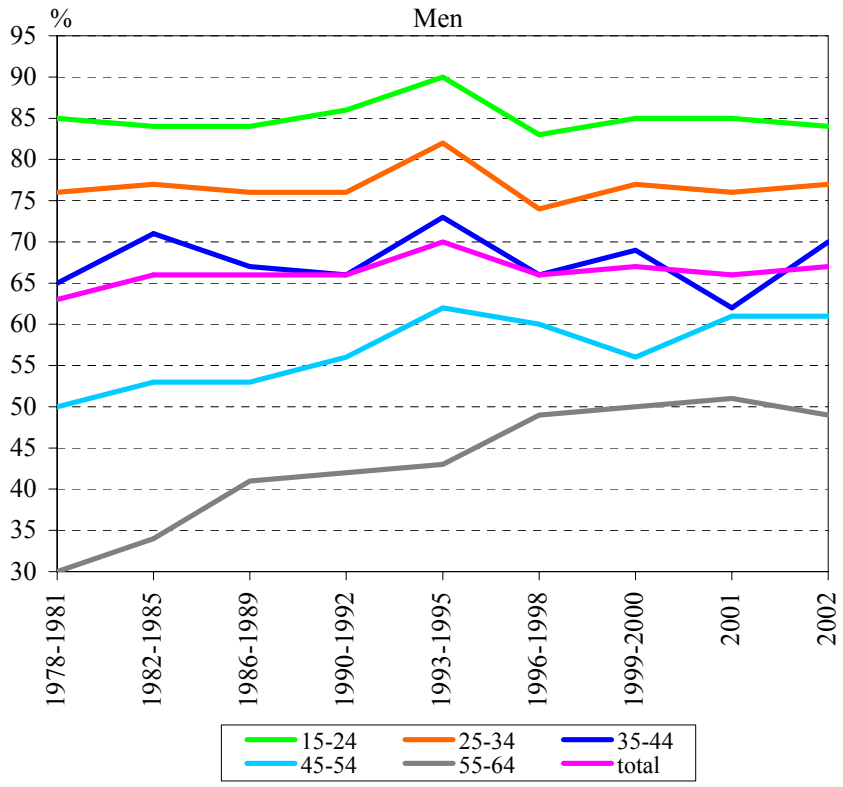
The growing incidence of smoking among women, increasing alcohol use among men and women as well as a significant increase in obesity pose a threat to health in the future. Among men and women alike, obesity has increased in all age groups during the past 20 years. The number of overweight men has risen in particular. Over half of all working-age men are overweight (Figure 6). Although there has been a drop in total cholesterol level among the population on average, only one in five has a level that can be said to be good.

Mild burn-out is seen in one in four persons, but severe burn-out is relatively uncommon, seen in only 2.5 %. The study has not produced any evidence of changes in mental health among the population during 20 years. Nevertheless, mental health and behavioural problems continue to be the largest group of illnesses entitling people to disability pension. In 2001, one in three persons who took up disability pension (a total of 7,800 persons) did so due to mental health problems. There has been a steady decline in suicide mortality since 1990, but in recent years an upward trend has been detected.

The state of oral and dental health has shown quick improvement. Edentulousness has practically disappeared among working-age people. The majority of Finns consider their oral health status to be relatively good. However, one third of men and one fifth of men have caries that requires dental care.

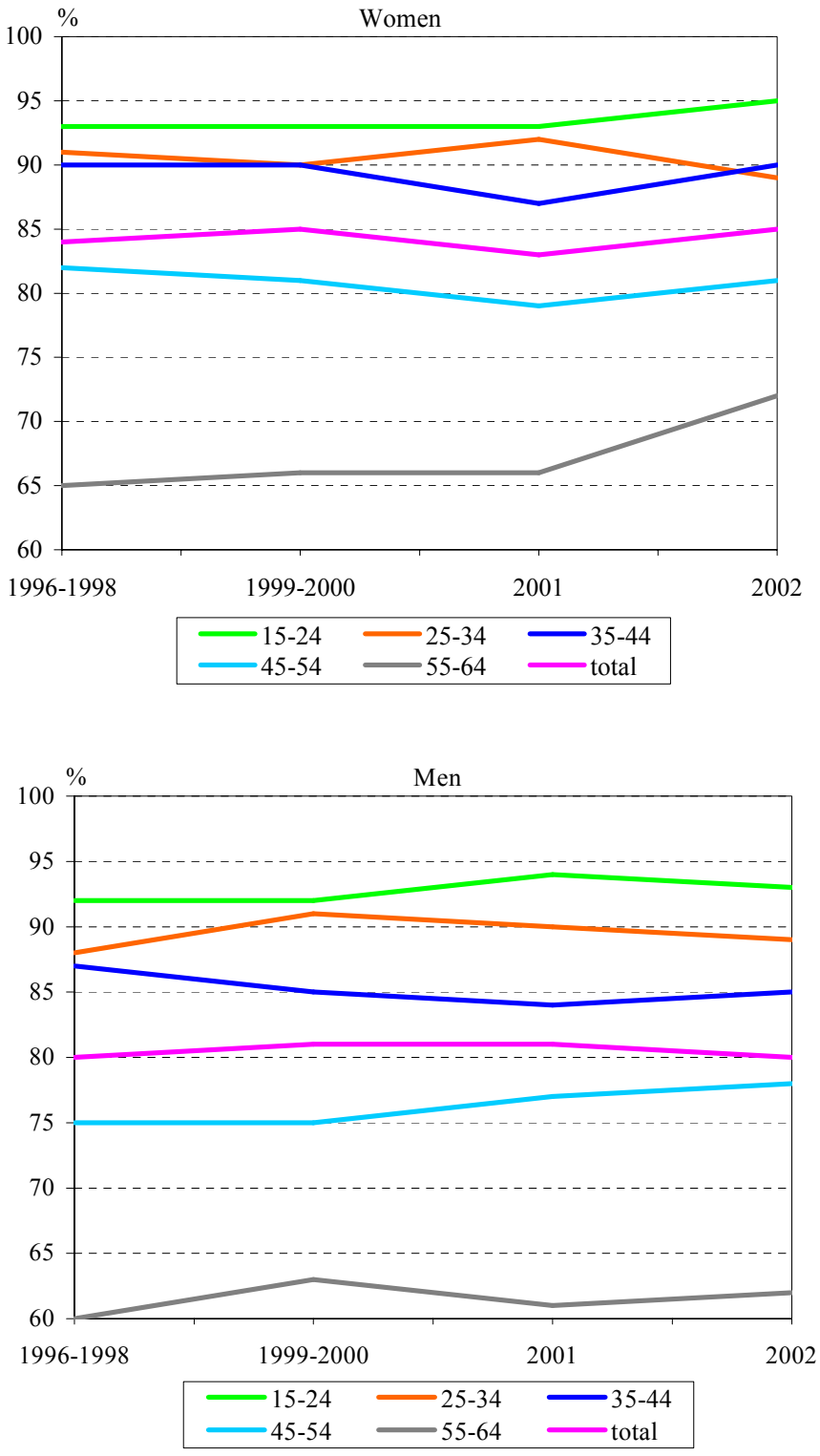
Figure 6. The proportion of those who assess their own state of health as being good or relatively good according to age (%)





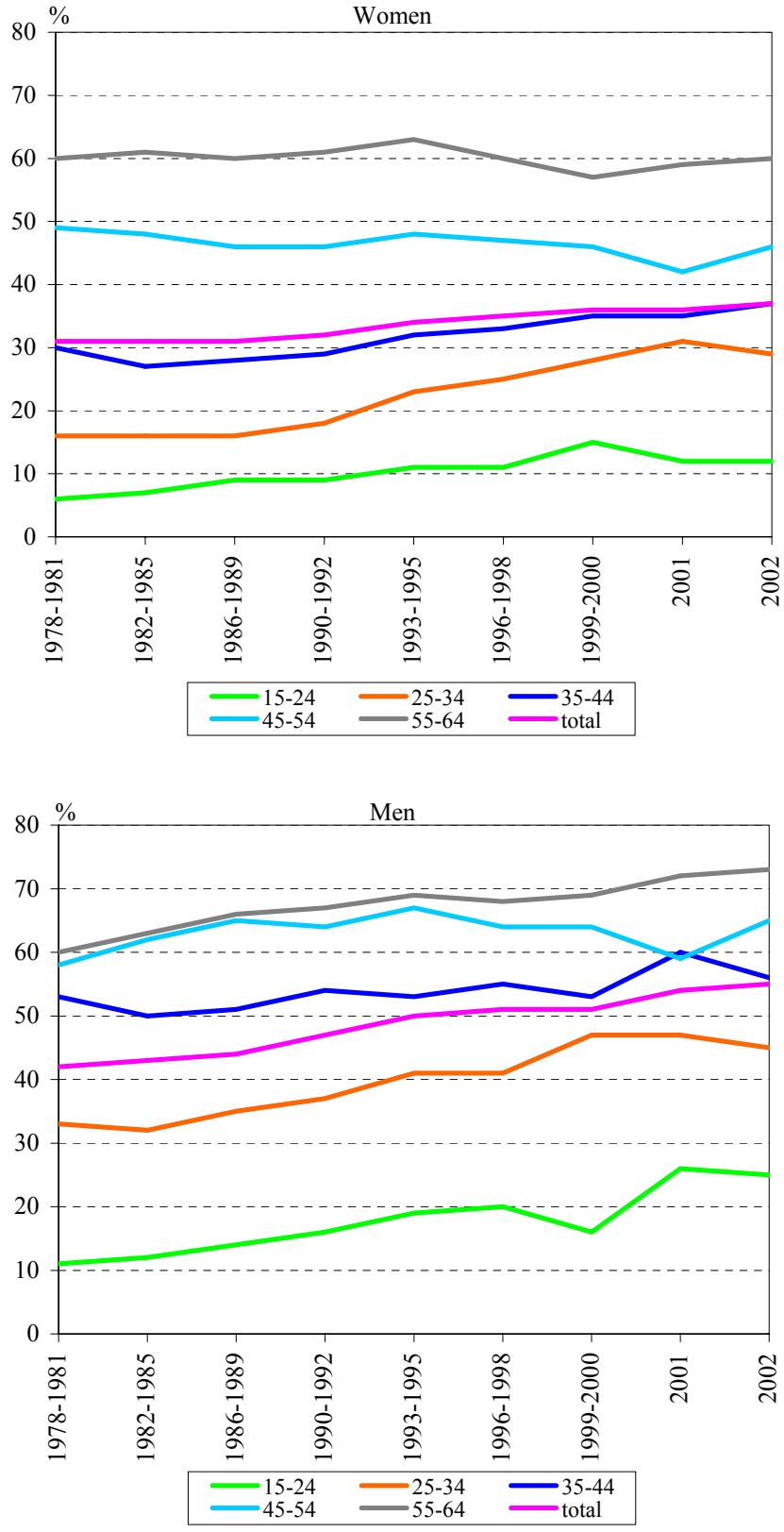
Source: National Public Health Institute

Figure 7. The proportion of those with no illness or injury affecting working or functional capacity (%)



Source: National Public Health Institute

Figure 8. The proportion of overweight persons (BMI 25 or more) %



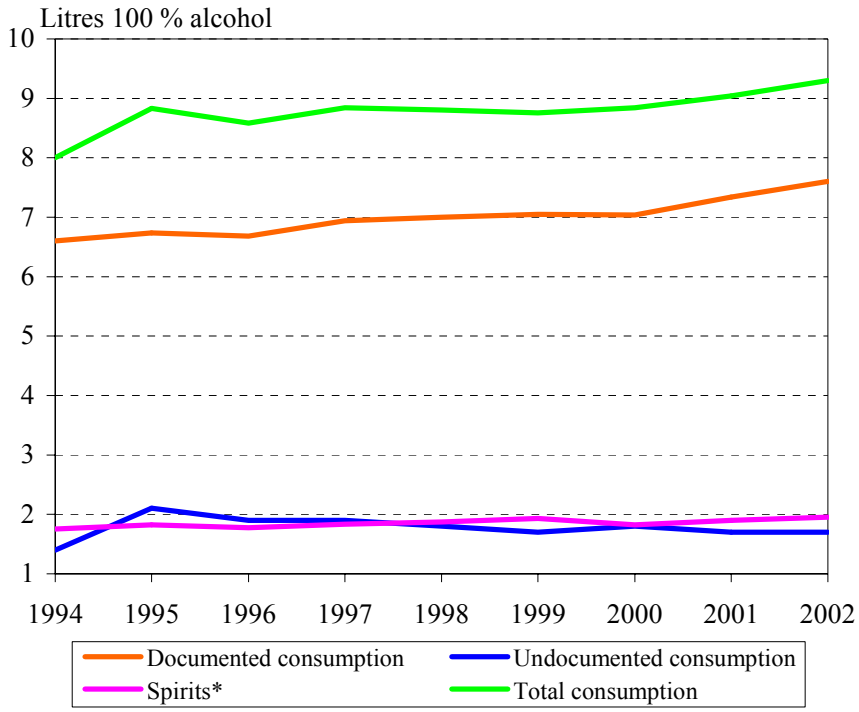
Source: National Public Health Institute

3.2 Increase in substance-related problems

Eight per cent of men suffer from alcohol dependency. In 2002 alcohol consumption rose to a record high level, 9.6 litres of pure alcohol per inhabitant. There has been a clear rise in the consumption of low alcohol content wines in particular (Figure 9). The problems caused by alcohol consumption are still many times greater than those caused by other substances. As alcohol use increases, so do its negative consequences. The problem use of alcohol, medicines, drugs and other substances is seen in the service system – various statistics show an increase in service use. On the other hand, there seems to be a slight reduction in heavy drinking among the young.

The rise in alcohol consumption is expected to continue in the coming few years as the restrictions on alcohol import are loosened. The growing consumption of alcohol will increase the need for and use of substance abuse related social and health care services.

Figure 9. Alcohol consumption 1994-2002

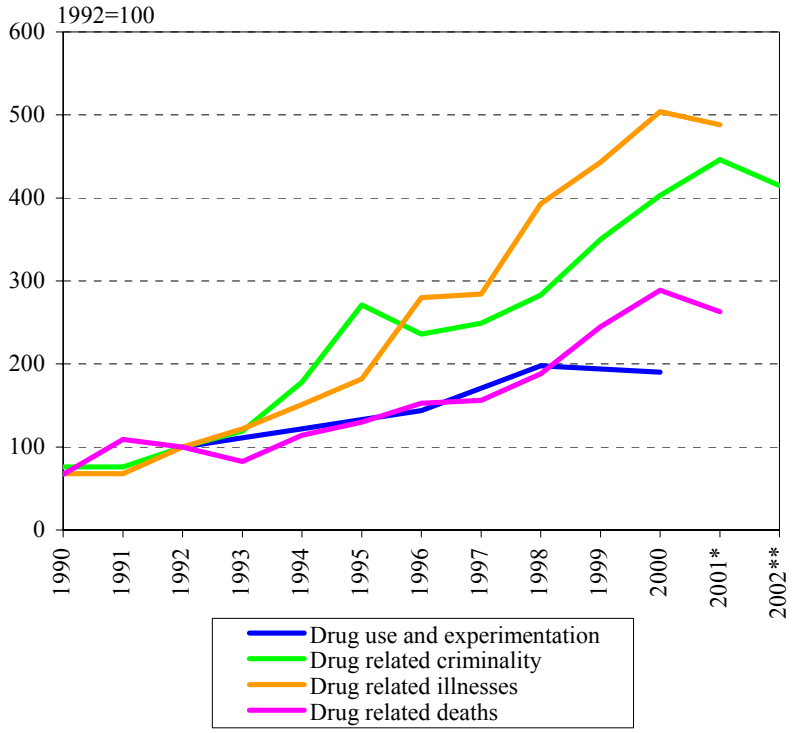


*The consumption of strong alcoholic beverages only includes information obtained from statistics

In the 1990s, the drug situation became worse in the entire country, but especially so in southern Finland and the metropolitan Helsinki area. A particular rise in experimental drug use was seen among the young and young adults. By the turn of the decade, the first evidence was seen of a slowing down of this trend, particularly among young adults (Figure 10). Even though the number of drug users is showing a slight downward trend, this does not mean that the problem is becoming less serious, as users are increasingly turning to heavier drugs. The

most important substance abuser groups consist of persons with problem use of alcohol and persons mixing alcohol and prescription drugs. In Finland, the use of hard drugs is often related to disadvantaged circumstances, criminality and exclusion.

Figure 10. Trends in drug experimentation and drug-related problems 1990–2002 (1992 = 100)



*preliminary data
**preliminary estimate
Source: the National Research and Development Centre for Welfare and Health

3.3 Health differences between population groups – the advantaged are in better health than before

As a whole, the state of health of Finns has improved. However, health differences between different population groups have even increased, although their reduction has long been the goal of Finnish health policy. Both health behaviour and the use of health care services have an impact on the differences in health.

The rise in health disparity is caused by the fact that the advantaged part of the population is in better health than before. The difference is most of all due to differences in the level of education, whereas geographic differences are disappearing. The state of health of married men and women is better, and their lifestyle is in many ways healthier than that of others.

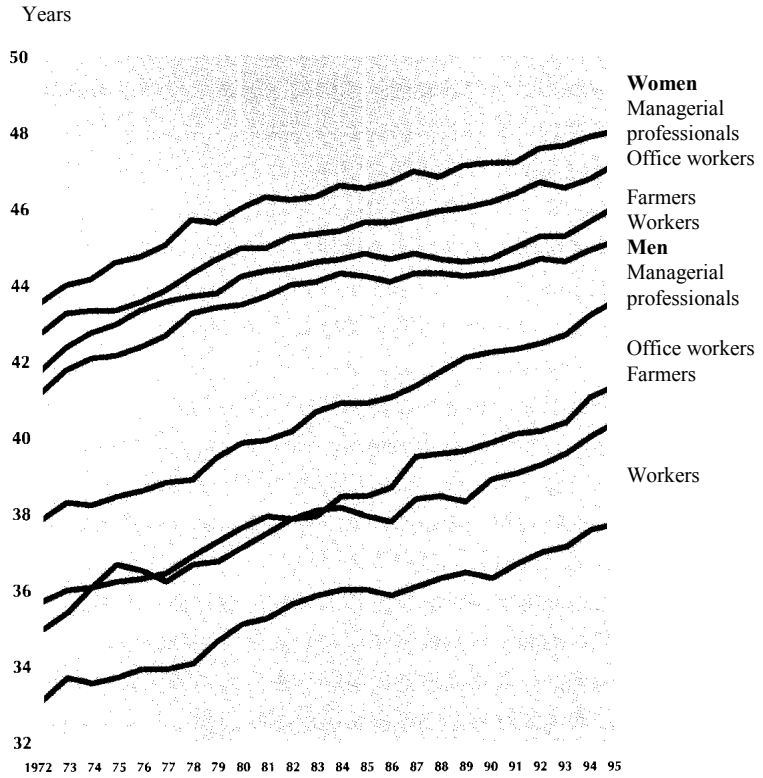
Life expectancy describes the average expected life length based on current mortality. Life expectancy has grown in all social groups, but more slowly so among the less educated. The differences between social groups have not been reduced (Figure 11). The socioeconomic differences in mortality and morbidity are similar. The increase in life expectancy is

primarily due to a rapid reduction in cardiovascular mortality.

In order to reduce health disparity, measures should be targeted more clearly than at present at groups at risk. Much of the health education given today is based on middle-class values and presented using middle-class language, which means that it is most readily available to those who are already taking care of their health.

Taking care of one's own health requires personal commitment as well. Besides education, structural measures are called for. Free school lunches, for example, have improved the health of children in the poorest families. Another significant factor has been preventive health care, particularly maternity and baby wellness clinics. In the past few years, however, there have been cutbacks in preventive health care: allocations to well-baby and maternity clinics and school health care have been reduced. The development programmes of health care services also prioritise treatment of illnesses, which is not a positive direction as far as the promotion of public health is concerned.

Figure 11. Life expectancy of men and women aged 35 according to social class 1971-1995



Source: Lahelma & Koskinen 2002

The reduction of health differences also calls for more comprehensive social measures spanning several administrative sectors, because socioeconomic health disparity poses a complex structural problem. For example, the health situation of excluded and socially marginalised persons can only be improved by improving their general living conditions. The service system should be able to recognise differences in health between

population groups and plan its operation accordingly.

Poor health is an obstacle to full social participation, and reduced working capacity or illness may lead to a weakening of social status. In order to combat this trend, comprehensive social protection, rehabilitation and various measures aimed at improving the position of the disabled are needed. The following table shows ways of reducing health disparity and the sectors of social policy that are best equipped to have a reducing impact on health differences.

Table 2. Ways of reducing health differences and social policy sectors

Ways of reducing health differences	Social policy sectors
Increasing material and cultural resources, particularly among the most disadvantaged groups in society	Education, economic, social protection, employment, regional, environmental and regional policy
Supporting a healthy lifestyle, particularly among the most disadvantaged groups in society	Education, economic, social protection, employment, business, regional, environmental and regional policy, and e.g. price, consumer, trade, agricultural and cultural policy
Developing social and health care services, particularly in such a way that they can serve better the most disadvantaged groups in society	Social and health policy
Evaluation of planned and implemented measures in different sectors of social policy, coordination of the measures required	Health policy
Measures aimed at maintaining social status and supporting its positive development among persons suffering from illnesses	All policy sectors

Source: Koskinen et al. 2002

The table shows clearly that the measures needed to reduce health gaps between population groups are varied, and that they have links to several policy sectors. In addition to health policy, a wider perspective as well as cooperation between various measures and policy sectors is called for.

4. Making work more attractive

Measures aimed at promoting well-being at work, improving occupational safety, occupational health and the work environment are significant from the point of view of individuals, the national economy as well as private and public sector organisations. The structure of social protection is developed further so that it encourages people to make active choices.

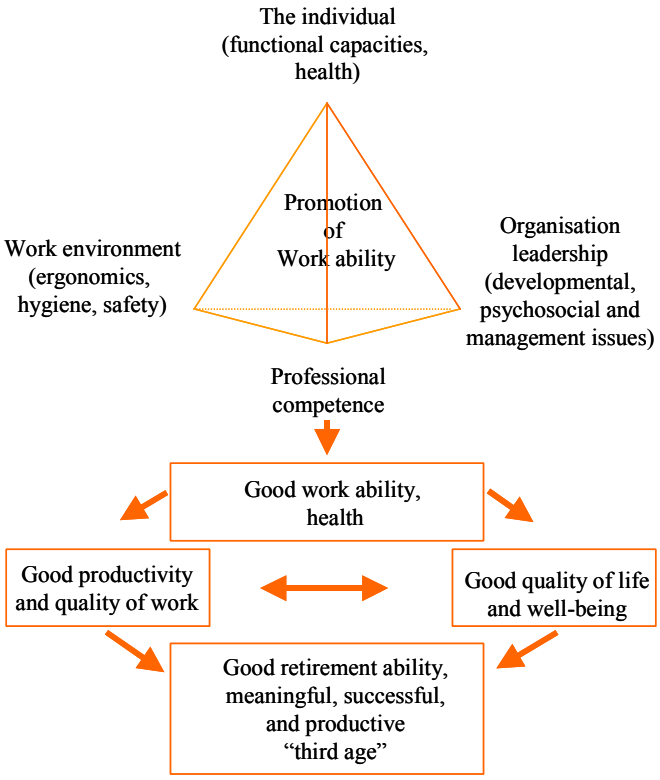
Increasing the attractiveness of work consists of development of systems related to incentives as well as of measures aimed at increasing people's work ability and employability and improving the general employment situation. The objective is to attain a 70 % employment rate during the next few years, and a 75 % rate in a longer perspective. Improving the employment rate reduces the number of persons who are economically dependent on one employed person, thus improving the economic dependency ratio.

Work ability refers to the sum of factors related to both the individual and work that are important for an individual's ability to cope in working life. Work ability is seen as a process where a person's resources and work interact. The employee uses and adapts his or her resources at work, but the result is affected by the work community, the working environment and the physical and mental requirements of work (Figure 12).

The foundation of work ability capacity is health, in the form of physical, mental and social capacity to function. Through education and competence as well as motivational and attitude factors, health is shaped into resources of individual employees. These resources are put to test in work-related tasks and the requirements of the working environment and community. Poor health and lack of competence weaken individual resources, and if the employee is not able to respond appropriately to the challenges of work, there is a risk that his or her work ability may be reduced merely due to burnout and exhaustion. "Total working capacity" is the interactive sum of a variety of factors. The work ability of an employee and his or her input of work at any given time are a part of his or her total life span and stage in life. This emphasises the importance of such issues as the need to reconcile work and family life.

The promotion of work ability involves developing human resources so that they respond to the demands of working life and the structure of labour demand. Work ability creates a foundation for employability, but it is not in itself a sufficient condition to guarantee employment. In addition to demand for labour, employability is also affected by various system-level issues, such as employment and pension legislation as well as other regulations related to various support and service systems. These system-level factors also define, to a large extent, the exit routes from and return routes to working life. Simultaneously, in the form of incentives and sanctions they have an impact on the way people behave as well as their choices and attitudes.

Figure 12. Factors affecting work ability



Source: Juhani Ilmarinen, 1999

Working capacity and employability are preconditions for employment. Although they are clearly labour supply related factors, their significance for the demand of labour should not be underestimated. From a company perspective, good working capacity means high productivity and competitiveness. Maintaining the capacity to work is preventive action, and it is a useful instrument in qualitative labour development to meet the needs of labour demand.

Working capacity, employability and employment should be looked at simultaneously on the level of society as well as company and individual level, so that the interaction of problems and solutions contributing to the issue can be taken into account. Attaining good working capacity benefits all parties: the employee, the company and society as a whole.

Ageing brings with it both positive and negative effects. As people age, their professional competence and other human experiences increase, bringing with it a variety of benefits. On the other hand, general functional capacity starts to deteriorate gradually with age. Various chronic illnesses become more common, and the risk of unemployment and need for treatment increases. Working and functional capacity can, however, remain good, if measures to that effect are taken at a sufficiently early stage. The maintenance of working and functional capacity should be focused on in the middle stages of working life at the latest.

Good working capacity and a high employment rate can only be achieved through cooperation between organisations and institutions. This calls for investments in social capital.

4.1 Maintaining working ability and rehabilitation of people at work

In making work more attractive, the maintenance of working capacity has a key role, in addition to economic incentives. The aim is to keep up the working capacity of people at work and to postpone the average retirement age by 2-3 years. The means used to this end include working capacity maintaining measures, rehabilitation and a pension policy that encourages people to stay on at work. In order to improve working capacity among employees, occupational health care services and workplace health promoting activities have been made more effective, recognition of the threat of reduced working capacity has been made a top priority, and the amount of early rehabilitation and vocational rehabilitation has been increased. In addition, extensive national programmes have been implemented aimed at changing working life attitudes and promoting workplace health.

4.1.1 New Occupational Health Care Act and Occupational Safety and Health Act

In 2000, a total of € 285.4 million was spent on occupational health care, € 129 million of which was paid out to employers as compensation. A new occupational Health Care Act entered into force as of the beginning of 2002. The objective of the act is more effective prevention of illness and accidents, to promote the health and safety aspects of work and the work environment, to promote the health, working and functional capacity of employees at different stages of employees' careers and to improve the functionality of the work community, through joint efforts of employers, employees and occupational health care. The aim is to target occupational health care activities to work place surveys and activities in the workplace, which is supported by a simultaneous change in the Health Insurance Act raising their reimbursement level to 60 %. The goal is to extend the scope of occupational health to areas where it has been implemented only little or not at all.

In the Occupational Health Care Act, cooperation between different actors is emphasised. In order for the threat of disability to be detected and the need of rehabilitation to be charted, smooth cooperation is called for between occupational health care, other health care sectors, organisations providing rehabilitation as well as labour administration.

Occupational health care faces a number of challenges. These include the effects of the fragmentation of working life on the occupational health care service system, promoting the health and working capacity of older workers, management of the psychological load caused by work, development of work communities, the problems related to knowledge-intensive work, new biological, chemical and physical risks, ergonomics and musculoskeletal diseases, substance abuse, occupational health issues among immigrants as well as workplace health promoting activities. Competition, uncertain and fixed-term employment relationships and the growing demands for competence and changes in the working life increase the load caused by work.

A new Occupational Safety and Health Act came into force at the beginning of 2003. It puts mental and physical workload, ergonomics, the threat of violence, harassment and other improper treatment of employees as well as working alone on a par with such traditional occupational safety issues as accidents and prevention of occupational diseases. The Occupational

Safety and Health Act emphasises the employer's responsibility to recognise and evaluate risks that are related to or caused by work. Employees also have responsibilities. Employees are considered to be active operators, who must see to their own safety and that of their co-workers with the means at their disposal.

The reform of the Occupational Health Care Act and the Occupational Safety and Health Act meant that legislation with a significant impact on well-being at work was brought up-to-date. Effective implementation of the acts is the next step. The aims of the VETO programme about to be launched under the management of the Ministry of Social Affairs and Health include improvement of the quality of working life, good safety practices as well as effective occupational health care and rehabilitation.

4.1.2 Working capacity maintaining measures in the workplace

In the early part of the 1990s, working capacity maintaining measures became part of statutory occupational health care. After that, workplace health promotion has also been implemented as part of occupational safety and health as well as staff development programmes. Measures aimed at maintaining and promoting working capacity have in recent years expanded both in volume and in their content.

Working capacity maintaining measures have most commonly involved boosting the professional skills and competence of employees. Traditional activities aimed at improving employees' physical condition, health and lifestyle and promoting occupational safety are also commonly implemented. On average a good third of employees participate in some form of exercise subsidised by their employer.

Workplace health and job satisfaction are affected by a number of other factors besides the physical condition of an individual employee. There has been an increase in the awareness of the importance of workplace development on well-being and workplace health.

In all sectors of the job market the sharpest rise in psychological work load was seen in the early 1990s, being most pronounced in the public sector. From 1993 onwards the rise in psychological work load has slowed down. However, in 2002 30 to 50 % of employees still assessed that the psychological workload had increased, while only a few per cent considered that it had been reduced. Over one half of all salary and wage earners reported experiencing psychological load at work.

Studies on the economic impact of working capacity maintaining measures have shown that they have been very cost-effective. Workplace health promotion and measures aimed at maintaining working capacity reduce costs due to illness, accidents and pensions, while they increase work productivity. The upward trend in the number of employed persons among the age group 55-64 may be at least partly explained by the implementation of working capacity maintaining measures.

There is little information available of the total costs of workplace health promotion and measures aimed at maintaining working capacity. This is due to the fact that with the exception of occupational health care, the operation is mainly implemented as part of the general development work of individual companies and workplaces. The costs of occupational health care reimbursed by the Social Insurance Institution of Finland remained well under control in the 1990s despite the significant increase in working capacity maintaining measures. Workplace health promotion and working capacity

maintaining measures have constituted a rare social and health care policy reform, in that they has been cost-effective on company level while not giving rise to any significant additional costs on national level.

In order for working capacity maintaining measures to be successful and to become an integral part of workplaces, an active approach and joint efforts on the part of employers and employees are called for. Occupational health care is the most important partner of working capacity maintaining measures in the workplace. In addition to maintenance of physical working capacity, attention must be focused on mental and social working capacity, the atmosphere and attitudes in the workplace, practical working arrangements and securing the working capacity and professional competence of older employees. Making working capacity maintaining measures accessible to all employees, at different places of work and having different employment relationships, is an important objective. Attention should also be given to maintaining the working capacity of such groups of employees who for various reasons have diminished working capacity. Working capacity maintaining measures that are implemented successfully and with a long-term perspective help increase job satisfaction and prevent disability. They also improve the profitability of companies in a sustainable manner. The reformed occupational health and safety legislation offers new means and opens up new opportunities to attain the objectives of working capacity maintaining measures.

4.1.3 The strategic lines for rehabilitation of working-age people and the impact of rehabilitation

The key objectives of rehabilitation include maintaining people's working capacity and making their working careers longer, and reducing the need of other social and health care services. Meeting these objectives brings clear benefits to the national economy, e.g. as a higher employment rate. The aim of rehabilitation is also to improve the quality of life of the rehabilitees.

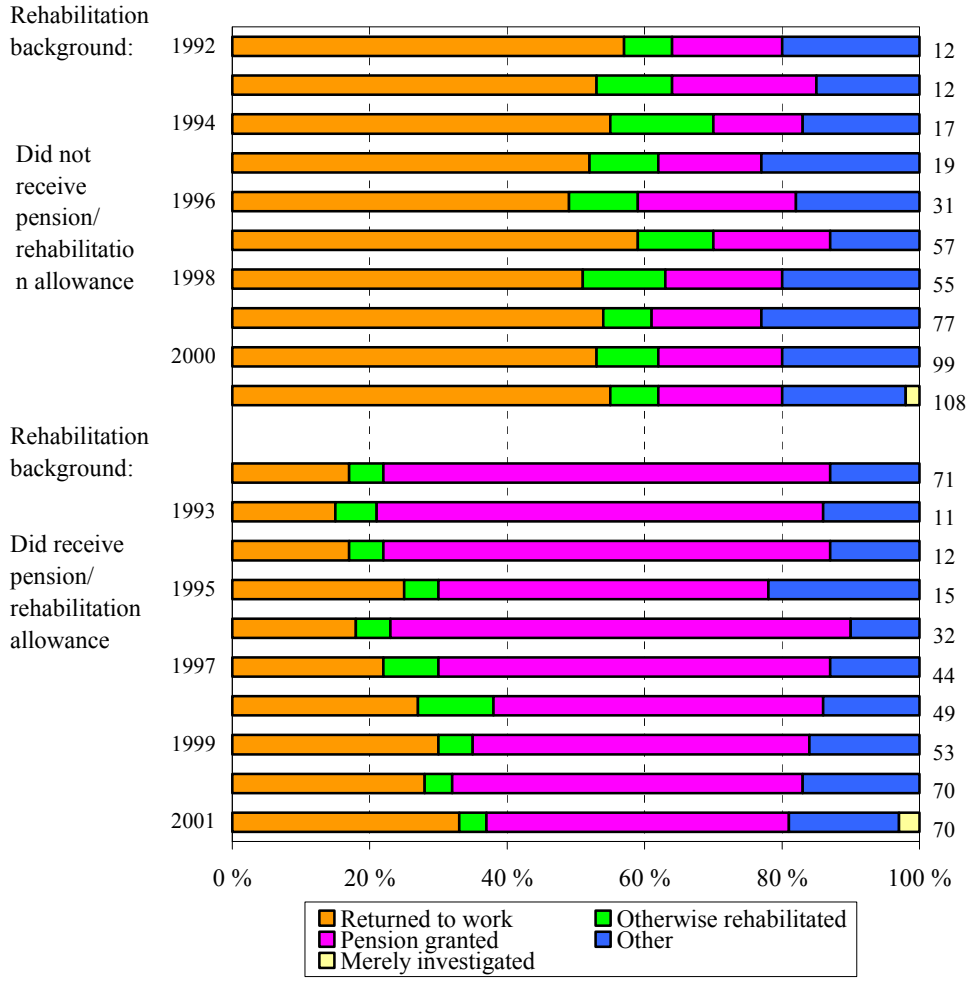
As the average age of the population rises, the demand for rehabilitation increases. Key strategic lines of rehabilitation among working-age people include the improvement of the position of and cooperation with clients, correct timing of rehabilitation measures, making the rehabilitative task of health care more effective, and promoting the employment of the disabled, persons with diminished working capacity and the long-term unemployed.

According to a survey carried out in connection with the 2002 work force study, 26 % of people at work felt that they were in need of rehabilitation. Workers and farmers felt more often than other socioeconomic groups that they needed rehabilitation. The perceived need of rehabilitation increased with age, and was greater among women than among men in all age groups.

When assessing studies on the impact of rehabilitation, the conclusion has been that early rehabilitation of people at work (e.g. the ASLAK and TYK rehabilitation courses offered by The Social Insurance Institution consisting of several rehabilitation periods) has a positive impact on the rehabilitees' working and functional capacity, the symptoms impairing them as well as on their mental well-being. Rehabilitation also helps slow down the increase in absenteeism due to sickness, whereas there is no positive proof that rehabilitation of this kind postpones retirement.

A clear threat of loss of working ability must be demonstrated in order for a person to be eligible for employment pension rehabilitation. The scope of vocational rehabilitation paid for by the employment pension system has expanded continuously: in the year 2001, a total of € 16.4 million was spent on employment pension rehabilitation on 5,200 rehabilitees. In 2001, the number of completed rehabilitation periods came to 1,793. A little over half (54 %) of those who were not receiving a pension as they began their rehabilitation returned to work immediately after completion of rehabilitation, and 18 % took up pension. A third (34 %) of those already receiving a pension returned to work, and 42 % remained on pension (Figure 13). The result can be considered good. If the work career of rehabilitees is prolonged by an average of two years, the result is sufficient to cover the costs of all completed rehabilitation periods, including those that do not result in return to gainful employment. Follow-up studies have shown that the work career of most rehabilitees continues for more than two years.

Figure 13. Activities after rehabilitation period of those taking part in employment pension rehabilitation programmes in 1992-2001



Source: Central Pension Security Institute

The economic impact of the rehabilitation arranged by The Social Insurance Institution has been monitored through registered data. The best rehabilitation results are achieved when rehabilitation is launched at a sufficiently early stage, targeting the correct group of people. It has been shown that rehabilitation diminishes the number of sick days and reduces the use of medicines particularly among those suffering from mental health problems, besides postponing retirement. Part of the people suffering from mental health problems are pensioned off at a very early age. The best results of rehabilitation of persons suffering from mental health problems are seen in the age group 25-44 years, most of whom have been able to stay on at work. In the older age groups, there is a common tendency to seek retirement.

4.1.4 Vocational rehabilitation based on threat of work incapacity

As of the beginning of 2004, workers at risk of inability to work are entitled to vocational rehabilitation. The aim of the reform is to promote the onset of rehabilitation as early as possible, when it is usually most successful. The aim is also to restore the ability to work of persons receiving unemployment pension when possible.

The reform means that employment pension institutions and The Social Insurance Institution are obliged to arrange vocational rehabilitation to persons who because of illness, defect or disability are at risk of being unable to work. At the same time, the level of the rehabilitation allowance paid by The Social Insurance Institution will also be increased so that it corresponds better to the level of the rehabilitation allowance paid out in accordance with the current employment pension system. The employee can also be paid a partial rehabilitation allowance. The reform emphasises the status of vocational rehabilitation as a primary alternative compared to unemployment pension.

4.1.5 Closer cooperation with rehabilitation clients

The Finnish rehabilitation system is generally considered as operating in a satisfactory manner, but in order to make the system even more effective, better cooperation is called for between different actors involved in rehabilitation. The need for cooperation is particularly important in making sure that persons needing rehabilitation actually get it, and that rehabilitation is available on a permanent basis. Other problems include low awareness of rehabilitation issues among the public, as well as how to get the resources of the rehabilitee's family, friends and co-workers involved in the rehabilitation process.

The aim of the Act on Cooperation with Rehabilitation Clients that entered into force in 2003 is to improve cooperation between the organisations that provide rehabilitation and to make the division of labour between actors more precise in situations that call for the input of several organisations providing rehabilitation. The status and possibilities to participate of persons taking part in rehabilitation will be improved through other means as well. The regulations concerning cooperation between rehabilitation clients have been brought up to date with current basic rights. Rehabilitation client cooperation work groups have already been operating in municipalities, but the reform sets down their aims more clearly. The municipality appoints the group for a four-year period. The group's task is to improve cooperation between actors providing rehabilitation within the municipality and to look at individual cases. The municipality must inform inhabitants and other authorities of the group's operation and composition. The cooperation groups give rehabilitees a

better chance to participate in the processing of their own cases.

The organisations providing rehabilitation services must see to it that rehabilitees are also informed about other rehabilitation options and that they are guided to seek them, if needed. Providing information and guidance is also of great importance in situations where a person's application for a pension or other benefit is denied. The rehabilitation client cooperation work group must make sure that the rehabilitee has a contact persons who is well versed in rehabilitation issues, who makes sure the rehabilitation is carried out and that cooperation between different authorities goes smoothly.

4.2. Raising the employment level among persons with disabilities, reducing unemployment

The equal right to work of the disabled has been recognised in resolutions of international organisations as well as the Finnish constitution. According to constitutional regulations pertaining to basic rights, it is the duty of the government to promote employment and to strive to ensure that every citizen has the right to work. Neither must anyone be placed in a different position e.g. due to state of health or disability without an acceptable reason.

Gainful employment is the primary alternative, as opposed to social protection for providing livelihood also in the case of people with disabilities. The employment rate of the disabled has, however, remained at a significantly lower level than that of the rest of the population. The majority of working-age disabled persons are pensioners, which means that they are not included in employment statistics. Pension income is the major source of income to most (an estimated 70 %) of persons receiving disability-related benefits. However, the proportion of disabled persons whose primary source of income is from gainful employment or entrepreneurship seems to have risen somewhat in recent years.

The goal is for the disabled to find employment primarily in the open job market. The employment authorities have the main responsibility for the employment of persons with disabilities. As of 1 April 2002, in accordance with the Employment Act, persons with disabilities have had the same status as users of employment administration services and support measures as the young and long-term unemployed. These groups are prioritised when state funds are allocated for employment purposes.

The support measures intended to promote employment of persons with disabilities that belong to the tasks of municipal social protection were made clearer by a law reform that entered into force on 1 April, 2002. According to the reform, activities promoting employment as well as work activities are social protection services that the municipality is responsible for. The target groups of activities promoting employment are persons who due to disability, illness or other reason have particular long-term problems in managing normal daily activities. These activities are targeted at people who find it difficult to find employment through employment services or employment policy measures only. Like before, "work activities" means activities aimed at promoting functional ability of disabled persons carried out in a context other than an employment relationship. Those taking part in work activities usually get their main income from a pension, in addition to which they are paid a tax-free work allowance (Figure 14).

Figure 14. Persons in sheltered work and those participating in work activities in 1994 – 2001

4.2.1 Employment of persons with disabilities

The increasing age of the work force and characteristics of working life give rise to various types of physical and mental disability. A large part of the working-age disabled are excluded from the labour market, even though the general employment situation has improved. The number of disabled job seekers has risen continuously. In 2002, the number of disabled job seekers totalled 85,600, which was almost 11 % of all people looking for a job (Figure 15). A total of 40,330 disabled job seekers found a job in the open job market, showing an increase by 11 % compared to the year before.

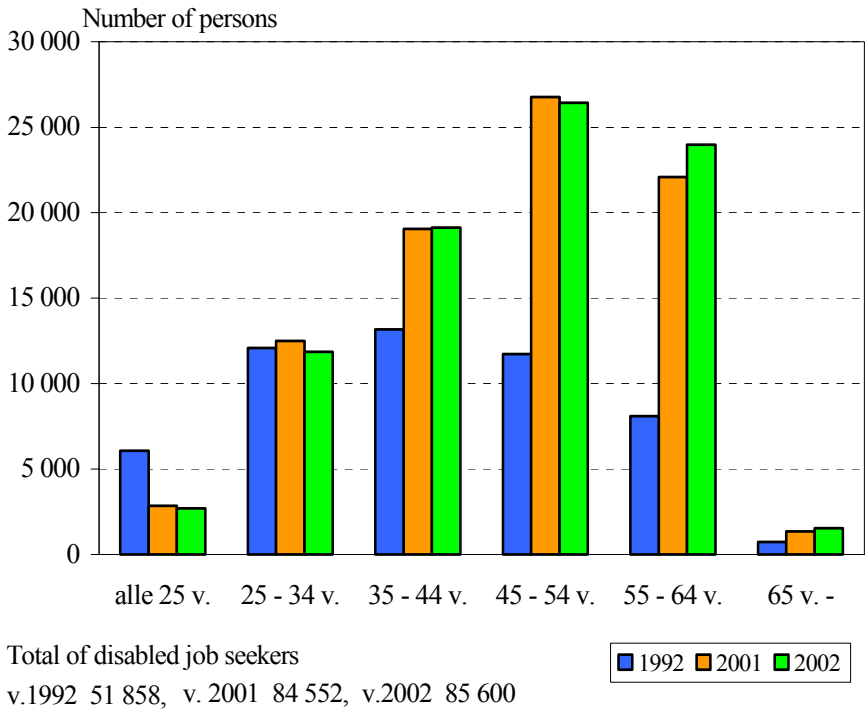
The number of disabled job seekers, 67,400 persons in 2002, has decreased somewhat since 2001. Disabled job seekers made up almost 12 % of all unemployed persons looking for a job. This percentage has constantly been showing an upward trend. In 2002, the proportion of all long-term unemployed made up of people with disabilities continued to increase somewhat, being 20 %.

On average, people with disabilities are unemployed for a clearly longer period of time than other persons without a job. In 2002, the period of unemployment of disabled persons lasted on average 30 weeks, while that of others lasted on average 17 weeks. 40 per cent of unemployed disabled job seekers were long-term unemployed.

The fact that a large share of disabled job seekers are ageing people makes their unemployment periods longer. In 2002, 60 % of disabled job seekers were 45 or older. Between 1992 and 2002, the age group 55-64-year-olds showed the greatest – a three-fold - increase in the number of disabled job seekers. The number of disabled job seekers rose clearly also in age group 45-54. An ageing work force and the drop in the onset of new unemployment pensions have also contributed to an increase in the

number of elderly disabled job seekers. On the other hand, the number of disabled job seekers under 25 has been successfully reduced. This is probably due to longer education, more efficient rehabilitation and the improved employment situation of the young (Figure 15).

Figure 15. Disabled job seekers by age group in 1992 and 2001-2002



Source: Ministry of Labour

Musculoskeletal disorders remain clearly the most important reason for disability among job seekers, accounting for 39 % in 2002. The second most important reason, showing an upward trend, are mental problems (16 %), whereas disability due to respiratory diseases has decreased somewhat (13 %). Among persons under 35, mental problems are the leading cause for disability, while the share of musculoskeletal disorders increases as the job seekers grow older.

Giving disabled persons equal opportunities for employment and improved possibilities for finding employment diminishes their risk of exclusion. In order for work to be the most economically profitable alternative in all cases, income transfers, income taxation, services and client fees should make up a comprehensive system that encourages activity. In order to find employment, disabled persons often need personal guidance and counselling, as well as a combination of education, rehabilitation, benefits and other measures. An improved employment situation increases the possibilities of employment authorities to provide more individually tailored paths to employment.

New opportunities for employment of persons with disabilities are provided e.g. rehabilitative work activities, a joint service experiment involving employment administration and social services as well as activities aimed at helping the disabled find employment that were launched by the reform of the Social Welfare Act that came

into force on 1 April 2002. The development of employment opportunities for the disabled and other people who find it hard to find a job also include the adoption on a wider scale of the supported employment model, e.g. by including it in the Employment Services Act. Other possible activities that may promote employment include the development of the organisation allowance paid by employment administration to improve the working conditions of the disabled as well as social entrepreneurship. Legislation is currently being prepared with regard to the latter.

Besides being well-motivated from a personal point of view, supporting the employment of persons with disabilities is in many cases well motivated from an economic point of view as well, when the costs of alternatives to employment are taken into account. The alternative costs include various costs related to income security and services, which are often diminished when a person finds employment. In addition, employment increases the tax revenue of municipalities and the state.

Even though the employment of persons with disabilities were economically profitable from the point of view of the public sector and national economy, the division of financing responsibility between the state and municipalities when it comes to different benefits and measures may lead to passivity of actors involved in employment. Municipalities pay the direct costs of employment measures organised by the social sector, but when persons with disabilities are employed, also the state stands to gain due to saved social protection costs. An appropriate division of the employment and unemployment costs of the disabled in the public sector can help increase the provision of measures aimed at promoting the employment of persons with disabilities.

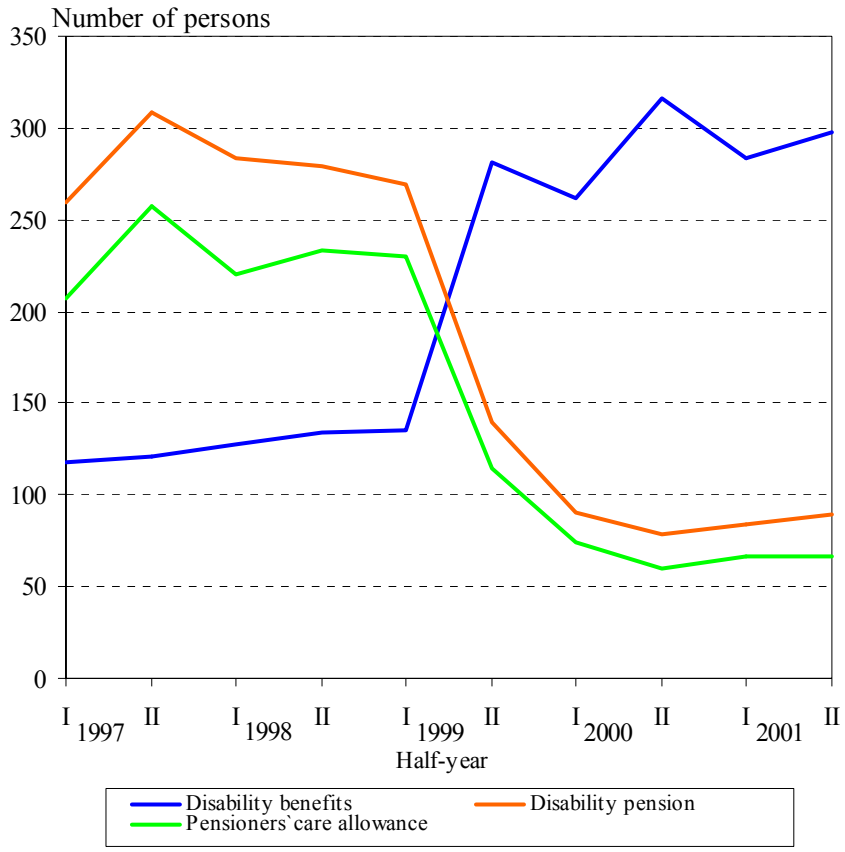
4.2.2 Rehabilitation of young disabled persons

In Finland, the traditional practice has been for young people with long-term illnesses or disabilities to go directly on to a disability pension at the age of 16, if they fulfil the conditions for disability pension. With a law reform that entered into force in August 1999, vocational rehabilitation of young people with disabilities became the primary alternative instead of disability pension. After the reform, persons under 18 can only be granted a disability pension after their possibilities for vocational rehabilitation have been assessed. In order to ensure that they do receive vocational rehabilitation, the young people are paid a special rehabilitation allowance. A precondition for this is that the municipality of residence has drawn up a personal study and rehabilitation plan in cooperation with the young person concerned, his or her guardian and other experts. In addition to the rehabilitation allowance, the young person can also be granted a disability allowance and general housing allowance, if the conditions for granting them are fulfilled.

In 1999 – 2001, the number of young people receiving rehabilitation allowance was about 2,000. The largest group of recipients was made up of young people with a mental handicap. Other common reasons for disability among young people receiving rehabilitation allowance included various congenital deformities and neurological disorders, such as cerebral palsy.

After the reform came into effect, the number of new disability pensions and rehabilitation benefits has fallen significantly (Figure 16). The reform has been implemented in accordance with its objectives, and the number of active alternatives has been increased. As of 1 April 2002, the rehabilitation allowance period was extended by law until age 20.

Figure 16. New disability pensions, rehabilitation benefits and pensioners' care allowance granted to persons aged 16-17 in 1997-2001 (according to time of entering into force)



Rehabilitation benefits (former fixed-term disability pensions) are included in employment pensions.

Source: The Social Insurance Institution

4.3 Development of pension systems

Many of the measures intended for encouraging older employees to stay on at work implemented since the beginning of the 1990s have involved pension policy. Age limits for pensions have been altered, and the conditions of some pensions have been made weaker. Today, possibilities for rehabilitation must always be charted before making a decision to grant a pension. These measures have decreased the number of new pensions and increased the number of people in the work force, but in the first phase they have also led to an increase in unemployment among older employees. Raising the age limit for early retirement and making other conditions more stringent can only have a desired effect if employment and other trends in the labour market support staying on at work. In recent years, the situation of ageing employees has improved in the labour market.

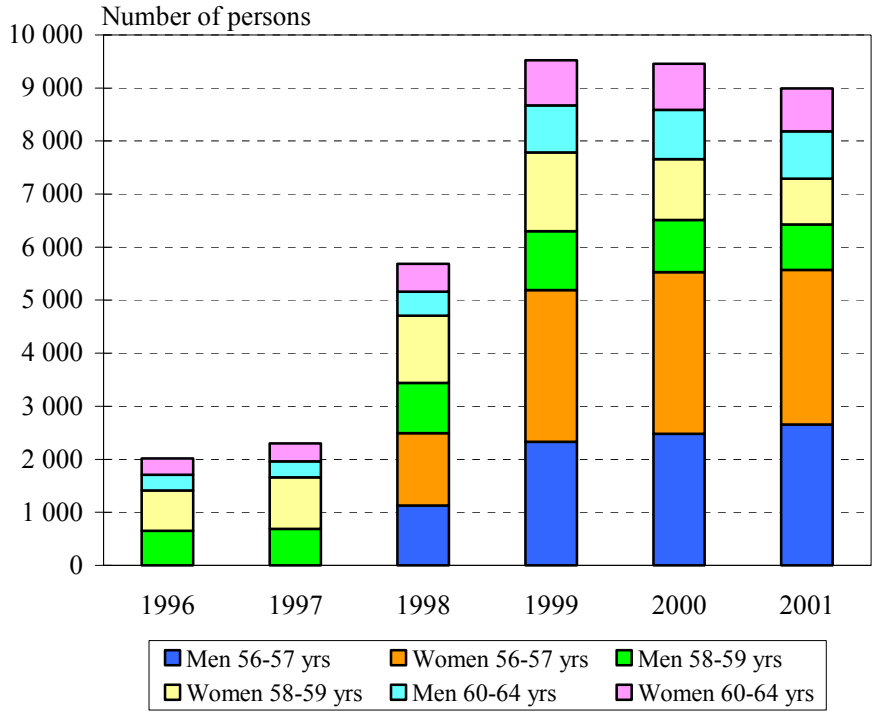
4.3.1 Changes in conditions for part-time pension

The aim of part-time pension is to improve the possibilities of ageing employees to shorten their working time and thus postpone the time when they leave work completely, helping them cope at work. The lower age limit for part-time pension was originally 60 years in the private sector and 58 in the public sector. The age limit was lowered to 58 in the private sector as

of the beginning of 1994. The age limit was temporarily lowered to 56 from July 1998 to the end of 2002.

After the 1998 reform the popularity of part-time pensions grew rapidly (Figure 17). At the same time, the proportion of the population made up of full-time pensioners was diminished. In 2001, the share of part-time pensioners in age group 55-64 rose to 5 %, and their share of employed persons in that age group rose to 11 %. By the end of 2001, the number of part-time pensioners was about 30,000, and by the end of 2002 it was as high as 40,000. The positive employment trend among older age groups is partly due to the increased popularity of part-time employment made possible by part-time pension. As part-time employment becomes increasingly common, the input of work of older employees does not necessarily increase at the same pace as the number of employed persons.

Figure 17. New part-time pensions granted in 1996-2001 according to age of onset and gender



Source: Central Pension Security Institute

The majority of today's part-time pensioners are office and management personnel, e.g. a large number of people holding various types of expert posts have applied for part-time pension. In recent years, part-time pension has spread to new fields and groups of people, so that more nurses, kitchen staff and maintenance staff as well as industrial workers than before have taken up part-time pension.

At the beginning of 2003, the age limit for part-time pension went up and the accruement of new pension became slower. Those born in 1947 and later are eligible for part-time pension at the age of 58. In their case, taking up part-time pension also means a reduction in old-age pension later on. Part-time work qualifies for old-age pension just like any other type of work. As of the beginning of 2005, old-age pension is accrued at a rate of 0.75 % per

year instead of 1.5 % for the decrease in earnings level due to part-time work. If a person who has taken up part-time pension in accordance with the new regulations becomes disabled later on, pension is defined in the same manner as when taking up disability pension after full-time employment.

During the transition period, i.e. in 2003 and 2004, the number of people receiving part-time pensions will decrease, because new age groups will not be eligible for part-time pensions. In 2005, the number of new part-time pensioners is likely to go up, because those who turn 58 that year have had to postpone their possible part-time retirement by one or two years compared to the cohort before them.

4.3.2 Employment pension security reformed as the beginning of 2005

Finnish employment pension security will undergo a reform as of the beginning of 2005. The aim of the reform is to continue the pension security reforms intended to encourage people to stay on at work. The objective is to postpone the age of retirement by two or three years. The motivation for the reform is most of all a need to respond to the challenges brought about to the national economy and pension system by an ageing population and increase in average life span. On the other hand, the reform is also intended to make the pension system clearer and make the grounds for granting pensions more just than is the case at the moment. The reform is an initial step towards combining the private sector Pensions Acts (TEL, LEL and TaEL) into one single Employment Pension Act.

The reforms described below refer to the pension reform of private-sector salary and wage earners and entrepreneurs. Negotiations concerning the public sector were still in progress in the spring of 2003.

In the future, employment pension is accrued between the age of 18 and 68. Old-age pension can be taken up flexibly between 62 and 68. As of the beginning of 2005, an employee or entrepreneur can leave work at 62, at which time a reduction is made to the pension due to early onset of pension. The pension is reduced by 0.6 % for each month the person is retired before turning 63. Persons 63 or older are entitled to full pension.

The pension accruement rate increases gradually with age, and in opposition to the present regulations, pension may exceed 60 % of the wages used as basis for calculating the pension. Pension accruement begins at age 18 at a rate of 1.5 %. From age 53, the accruement rate is 1.9 %. Employees and entrepreneurs in this age group contribute to the financing of their pension security by paying a higher employment pension contribution than now. In the case of those aged 63-68 who are still at work, old-age pension is accrued at a rate of 4.5 % per year.

With the employer's permission, the onset of pension can be postponed beyond the age of 68. In that case, the pension is increased by 0.4 % for each postponed month after the person has turned 68.

The age limit for national old-age pension is even in the future 65 years. The amount of national pension will not, however, be reduced by the employment pension accrued after 63. Eligibility for sickness allowance will cover persons up to age 68.

In the new system, the wages used as basis for calculating pension, or the so-called pension wages are calculated on the basis of a person's entire career. In the current system, pension is usually determined based on the earnings of the ten last years of employment. In addition, as of the beginning of 2005, all employment pensions paid out will be adjusted with the

current old-age pension index, where wages account for 20 % and prices for 80 %. The pension index of those under 65 will therefore be weakened, but on the other hand, the improvement of the wage coefficient as of the beginning of 2005 will raise the level of new pensions. In the new pension coefficient, wages account for 80 % and prices for 20 %. In the current coefficient, both account for 50 %.

At the age of 63, disability pension turns into old-age pension. People may receive part-time pension from age 58 to 68. The time for calculating future pension wages will also change. The pensions of persons who have been obliged to take up disability pension before the age of 50 will be adjusted after five years' retirement.

Two types of pensions will be discontinued. No new individual early retirement pensions will be granted after 2006. This will not have much impact on the total amount of pension recipients. Unemployment pension will be discontinued for persons born after 1950, and it will be replaced by eligibility to unemployment allowance. Due to the large number of people receiving unemployment pensions, the most significant effects of the early retirement reform are caused by the discontinuation of unemployment pension and the raising of the lower age limit for right to earnings-related employment allowance by two years to 59.

As of 2005, pension is also accrued during job alternation leave and other periods during which the employee is paid an allowance instead of wages.

As of 2005, the pension reform also changes the social protection of persons caring for their own children. During the time parents stay at home and care for their children, pension is accrued based on a monthly income of 500 euros. At the moment, no pension is accrued during the time parents look after their children, which has seen as a shortcoming for women's pension security in particular. A condition for pension accruement is that the child looked after is under three years old and the parent looking after the child must not be a pension recipient.

Pension will also be accrued during study. The pension will be calculated based on a monthly income of 500 euros. All in all, students are eligible for pension accruement under five years of study that entitle them to study grants. In order for pension to be accrued, students must also attain a degree or complete their vocational studies.

The pension system is also preparing for a rise in the average life span. In order for pension security to adapt to the average rise in life span, a so-called life span coefficient will be taken into use, which will influence pensions taken on in 2010 or later.

The effects of the reform of the pension system will not be seen in full until much later. As far as pension recipients are concerned, the reform includes changes that both raise and decrease the level of pensions. Pensions are raised by such factors as new accruement rates, earlier accruement, the new wage coefficient used in earnings adjustment and the higher accruement of pension during some periods with no salary.

Most pension recipients will benefit from the reform. According to calculations made by the Central Pension Security Institute, no major differences have been observed in benefits between different professions or vocations. Men and women also seem to benefit relatively equally from the reform.

4.4 Economic incentives to work

Economic incentives to work are connected to very different kinds of life situations and benefit systems. The built-in incentives in the study grant system can influence the duration of studies and the time when students enter the workforce. The availability of daycare for children, daycare fees and alternative benefit forms guide the choices parents make about going out to work or staying at home, while the existence of early retirement schemes and grounds for granting pensions have an effect on when people retire. Incentives also guide the choices made by others than individual citizens and households. Benefit systems and the way they are financed have an impact on both the recruitment and lay-off decisions that companies make and the objectives of trade unions. The guiding impact of the systems also has an impact on the public sector. The reform of the government grant system in the early 1990s changed municipal decision-making. At the moment, the need to reform user fee policy and regulations within social and health care are under consideration.

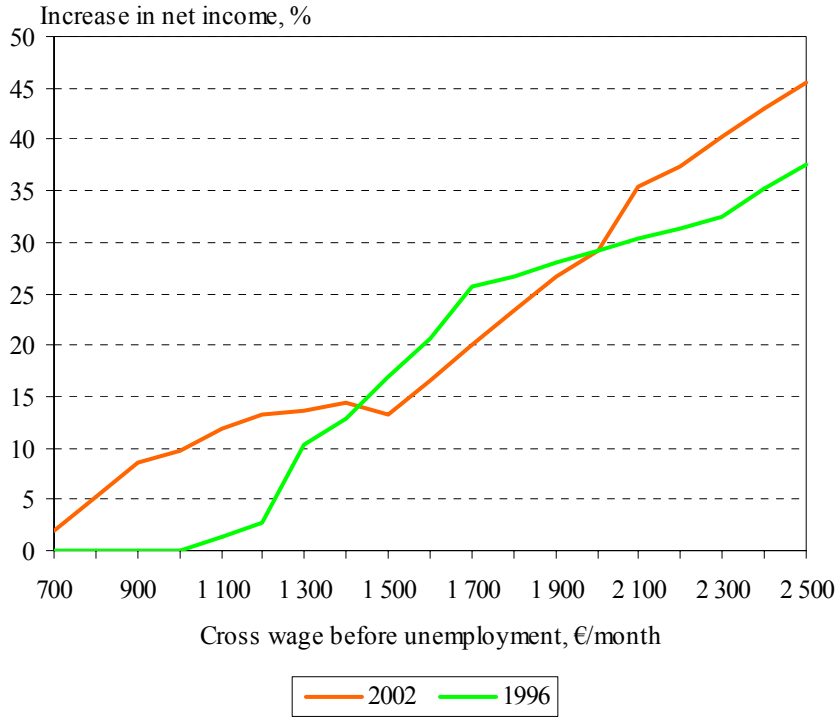
The economic incentives to work have in recent years received a lot of attention, as income security and taxation have been undergoing reform. The proposals of the Incentive trap working group that gave its report in 1996 led to several changes in legislation in 1997 and 1998, and a number of changes have been made to both benefits and taxation after this. In addition to general lowering of taxes and reductions in marginal tax rates, the earned income tax allowance in municipal taxation has been increased several times. In reforming and developing the benefit system, the emphasis has in recent years been on attempts to postpone the time people leave working life. In this respect, the greatest changes still lie ahead, when the employment pension reform and other related reforms come into force at the beginning of 2005. The question of adequate level of benefits has gained increasing prominence alongside discussions on incentives. The levels of both national pensions (1 June 2001) and unemployment benefits (1 March 2002) were increased.

Incentives to accept lower paying jobs: An example

It is often not easy for people who have lost their job to find a new one with a level of pay corresponding to that they had before they became unemployed. An employee who has worked for a long time for the same employer may have possessed firm-specific competence and skills. Learning special skills and competence in the new place of work may take time, which is why initial pay is lower than in the previous job. In situations where the demand for labour changes fundamentally people may be compelled to change their professions and to work in new fields. The new job offer may involve significantly lower pay than previously. In such cases even moderate income security may raise the threshold of job acceptance. Income security, which is intended as a short-term measure, may lead to longer duration of unemployment and in the worst-case scenario, to exclusion from the job market.

Figure 18 illustrates the economic incentives associated with such a situation. In it, the net income while receiving earnings related unemployment allowance is compared to the net income from a new job, when the pay from the new job is only 80 % of the wages prior to unemployment. In addition to wages and earnings related unemployment allowance , taxation and housing allowance is taken into account. It is assumed that the person in the example is living alone in a rented flat. With monthly wages of as much as 1,500 – 1,600 euros (prior to unemployment, new wages 1,200 – 1,280 euros/month), the net increase in income is only 15 % compared to the net income during unemployment. In income brackets below the median wage, the relative increase in net income after employment is smaller in 2002 than in 1996 in the case at hand.

Figure 18. Increase in net income when becoming employed to a new job which pays less than the previous one prior to unemployment in 1996 and 2002



In the figure, the 1996 wage is adjusted to 2002 level with earnings level index. The person is assumed to live alone in a rented flat in a municipality group 3 of housing allowance (2002), with an assumed rent of € 305/month (1996: € 247/month).

4.5 Promoting equality in working life

As a state, Finland is bound by international agreements as well as Finnish legislation concerning the promotion of equal pay. In the last decade, the battery of means to achieve this end has included solidarity in wage policy, equal pay supplements, the development of systems to assess the degree of demand of work, and attempts to abolish segregation in the job market. However, no significant levelling off of wage differences can be seen in statistics.

4.5.1 Development of equal pay

The average wage discrepancy between men and women, calculated on the basis of regular working time, is at the moment about € 440. Throughout the 1980s the average wage gap between men and women in terms of Finnish marks grew, while it remained unchanged or was even diminished somewhat during the economic slump in the early '90s, and started to grow again after the mid-90s. From 1995 to the third quarter of 2002, the wage gap increased by about 60 euros, or almost 15 %.

At present, the increase in wage difference between men and women seems to be a permanent, albeit a slow trend. The relative income difference, i.e. the percentage of women's wages of those of men has remained at the level of about 82 % despite the increase in wage disparity in terms of cash earnings. When discussing wage differences, it is usually the relative percentage that is referred to, which may have obscured the trend somewhat. After all, when you pay for your purchases at a checkout, you do it by using actual money, not percentages.

Table 3. Difference in earnings between women and men during regular working time in 1995 – 2002 and women's earnings as a percentage of men's

Year	€	%
1995	381	82.0
1996	386	82.4
1997	391	82.4
1998	397	82.5
1999	415	82.1
2000	418	82.0
2001	436	81.7
2002 (third quarter)	445	81.7

Sources: Statistics Finland, income level indexes

4.5.2 How wage differences are explained

There is hardly any difference in participation in working life between men and women. Among the under-50s, women are better educated, although the same segregation by gender as in work tasks is seen in the fields of study. Women work more often in the public sector and in care and nursing, whereas men work more often in the private sector and clearly more often in managerial positions. The differences in wages were formerly explained by factors of this kind. However, women's wages are lower than those of men both in the public

and the private sector, likewise when educational level is taken into consideration.

The factor that is used most commonly at the moment to explain the difference in earnings is segregation of work by gender. For example, according to the latest wage survey carried out by the Government Institute for Economic Research (Korkeamäki – Kyyrä 2002), the fact that men and women work in different fields, and have different tasks even within the same field, explains about half of the wage difference among industrial workers and office staff, whereas individual factors such as education account for some 10 %. According to this study, about one third of the difference in pay between women and men working in similar positions cannot be explained. The researchers who carried out the study do, however, point out that the material they used (wage data collected by employers, covering a total of 165,658 workers and 124,005 office employees) does not allow them to estimate whether the jobs grouped under different titles differ as to their level of demand.

The greatest obstacle in the way of equal pay may thus be the strong segregation by gender of the Finnish labour market. According to both Finnish legislation on gender equality and EU regulations, employers should pay the same wages for the same job and for jobs of equal value, regardless of the employee's gender. The assessment of whether jobs are of equal value has proved difficult. However, the assessment should be carried out using the same criteria in the case of persons working for the same employer, but current labour market agreement practice has not succeeded in finding a solution to this problem, despite efforts to this end for over ten years on the part of labour market parties.

4.5.3 How to proceed in the implementation of equal pay

Agreements on wages and the grounds for them are made in collective bargaining negotiations, with the state as one of the contracting parties. The state has clearly stated that the principle of equal pay is an integral part of its policy as employer. However, the total earnings of women fall below those of men in nearly all wage categories of state employees. When the state wage system is reformed, special attention should be focused on the fact that new wage systems with built-in incentives treat the assessment of typical women's and men's tasks equally and monitor how the new systems affect wage differences between women and men. At the moment, monitoring of this kind is mostly lacking.

The legislation on gender equality is currently undergoing reform. Legislation is a key instrument also in terms of promoting wage equality. However, the board preparing the reform is very divided as to the means to achieve the objective. 4.6 The progress made in attaining set objectives

4.6 The progress made in attaining set objectives

Besides factors related to demand and incentives as well as working capacity, the alternative exit routes from working life that are available have an impact on whether employees stay on at work or not. Employers can also influence the choices made. Employees are most likely to choose a route that is possible or that is most suited to their current life situation. It is easiest to choose a path one can influence with one's own decision. The correct age, together with unemployment is enough to qualify for unemployment pension, whereas some 25 % of individual early retirement applications are turned down.

About 10-20 % of ordinary disability pension applications are turned down.

4.6.1 Disability pension taken up by a smaller proportion of people

About one in ten of all working-age people (16 – 64 yrs) in Finland receive disability pension or other disability-related benefits. The proportion of those on disability pension declined steadily throughout the 1990s among those under as well as over 50, and the figure currently stands at 8 % for persons aged 16 - 64. The results of the Health 2000 survey show a similar trend when working-age people assessed their own work capacity. In the age group 30 – 64, the proportion of those who feel themselves to be either wholly or partly incapable of work diminished between the years 1980 and 2000 both among men and women. With increasing age, people's perception of their own working capacity shows a clear deterioration, however.

In 2001, a little over 23,000 people took up disability pension or individual early retirement pension within the employment pension system. The number of disability pension recipients is not an accurate indicator of health and working capacity among people of working age. The number of disability pensions is influenced by the scope and contents of other forms of social protection, by the definition of disability that makes one eligible for disability pension as well as changes in the working life, such as the changes in the status of older employees in the labour market.

The disability pensions of the young disabled have partly been replaced by study and rehabilitation allowance. The fact that the age limit has been raised from 55 to 60 has reduced the number of new individual early retirement pensions.

The fall in the uptake of new disability pensions applies to other pensions than those granted on the basis of mental health problems. Some common diseases, such as hypertension, are less prevalent among the baby-boomers than among previous cohorts. This may indicate that the risk for disability of those 50 or older may continue to fall in the future. On the other hand, there are worrying follow-up data from recent years showing that the working capacity of people aged 45-54 has shown a steadily declining trend each year, while that of people aged 55-64 has remained unaltered.

Widespread unemployment and the use of unemployment pension have had an impact on the number of disability pensions. Most applications for disability pensions come from people working in physically demanding fields – construction and industry – in which many people were made redundant during the recession years. This reduced the number of people who applied for disability pension. Other factors influencing the number of people applying for disability pension include low education level, recurrent periods of unemployment and place of residence. Maintaining one's vocational competence through education and training improves the status of elderly employees and creates a favourable setting for job satisfaction.

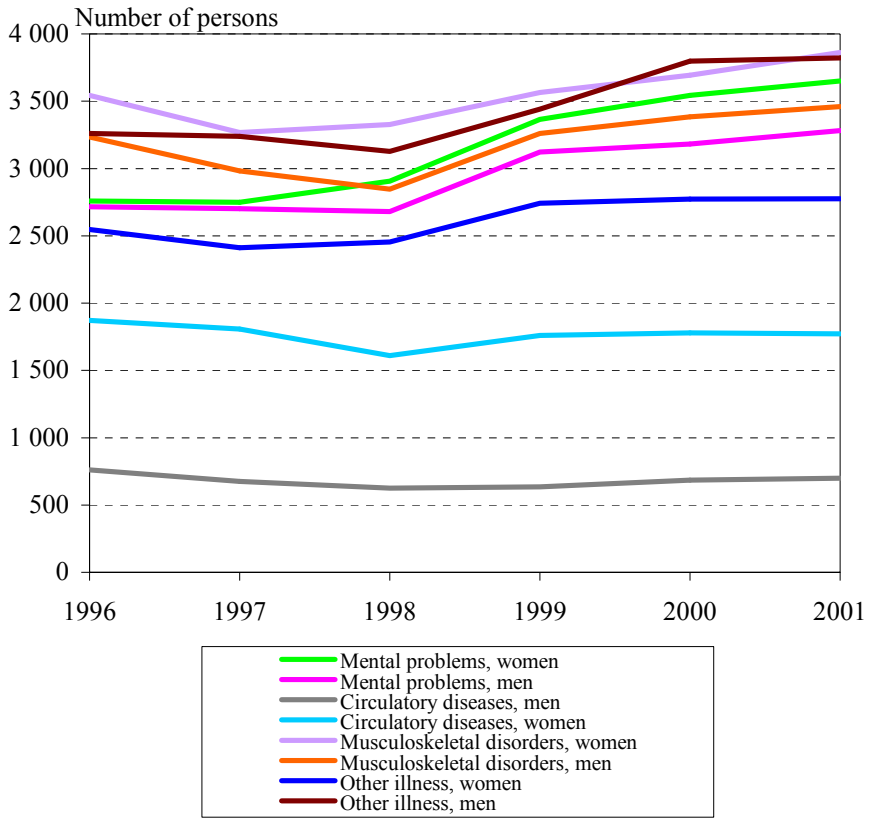
4.6.2 Mental problems an increasingly common reason for disability pensions

The most important reasons for granting disability pension are musculoskeletal disorders and mental problems (Figure 19). In 2001, 31 % and 30 % of new disability pensions were granted on the basis of musculoskeletal disorders and mental health problems, respectively. The number of disability pensions granted on the basis of circulatory diseases has been declining for the past two decades.

Mental problems have become increasingly common as a reason for disability pensions. This is due to the fact that the number of disability pensions granted on the basis of varying degrees of depression and burnout symptoms has grown in particular. The high prevalence of mental problem is particularly pronounced among younger age groups. Over half of the disability pensions granted to persons under 55 are based on mental problems.

The reasons for granting disability pension vary between professions and groups of employees. Traditional physical occupational health problems are emphasised among some groups, whereas mental problems are a more common reason among others. There may also be other problems behind mental problems, involving substance abuse, problems in the family and other compounding problems in different areas of life. Burnout or work or unemployment related depression is not always in itself the only decisive reason leading to retirement. Working capacity and well-being are the result of a good work environment, motivation and the fact that employees feel that their work is important, as well as good relations with family members and other people and interesting leisure activities. Job satisfaction and motivation to work reflect the overall development of working life and the society.

Figure 19. Reasons for granting new disability pension within the employment pension system 1996 - 2001



Includes disability pensions and individual early retirement pensions

Source: Central Pension Security Institute

4.6.3 Part-time pensions have made it easier to stay on at work

Nearly all of those on part-time pension – over 90 % according to a survey conducted in 2001 – consider their state of health to be good or moderately good. Part-time pensioners' own assessment of their state of health is similar to that of people of the same age (58-64 yrs) who are at work. Part-time pensioners also usually assess their working capacity to be good. It can therefore be assumed that problems related to health and working capacity are not usually the sole reason for taking up part-time pension.

In part-time pensioners' own estimate, the reduction in working time has made it easier for them to cope than previously, when they were working full-time. Women have a more positive view of the impact of part-time pension on working capacity and job satisfaction than men. As part-time pensions become increasingly common, there are also more people among part-time pensioners with physically demanding jobs, who do not perceive their state of health in an equally positive light.

The popularity of part-time pension has clearly reflected the changes made to the level of pension security. When the pension benefits were improved, the popularity of the pension increased. On the other hand, the popularity of part-time pension reflects well the current trend where burnout is seen as a common problem. The popularity of part-time pension may partly reflect people's attempt to balance their roles as members of the working society and civil society. In the future, the fact that a growing number of employees must look after elderly relative, for example, may lead to increased interest towards part-time retirement.

Part-time pension may have contributed to a slight reduction in the use of the path to unemployment pension. On the other hand, only few people taking up part-time pension have been in danger of being made redundant. According to a survey conducted in 2000, a new employee has been taken up to replace about one in three part-time pensioners. As part-time pensions have become more common, the number of new individual early retirement pensions has gone down somewhat. On the other hand, there has been a trend for several years now for fewer new individual early retirement pensions to be taken up.

4.6.4 People retire later than before

During the National Age Programme implemented in 1998 – 2002, the average age of retirement rose and employment among elderly employees improved more than the average employment rate, so that it became closer to that among other age groups. There was also a reduction seen in long-term unemployment among older employees.

In the 1990s, only about one in ten Finns aged 65 was gainfully employed until eligible for old-age pension. In 2002, this proportion seems to have grown to an estimated one in seven of those aged 65.

The employment situation of ageing workers is significantly affected by unemployment pension and the channel leading to it, i.e. the right to earnings-related unemployment allowance, which is currently restricted to those 55 or older. There has for a long time been an increased tendency for people to become unemployed after reaching the age of 55. There are no significant differences between the sexes in the frequency of unemployment, whereas limited education is clearly a risk factor for becoming unemployed and totally excluded from working life. It is rare for those on the path to unemployment pension to find a job. The use of the channel to unemployment

pension is frequent in fields that have been affected by international competition and structural change.

The employment situation of the over-55s has improved rapidly since 1998 (Table 4). In 2000 and 2001, the employment situation of ageing workers improved most of all age groups. Women and men aged 55-59 are the only five-year age group participating in working life more extensively than in the late 1980s. In 2001, about 65 % of those aged 55-59 were already working. Those aged 60-64 are also more commonly at work than earlier, but on the other hand, unemployment seems to be on the rise in that age group as well.

The positive development trend is most of all due to the fact that ageing workers have increasingly been able to keep their jobs. The increasing popularity of part-time pension has also cut down the number of full-time employees leaving working life. It is still very hard for ageing workers who have been made redundant to find a job. These difficulties in finding a job emphasise the need to support coping at work of ageing employees, to maintain vocational competence and to provide rehabilitation at a sufficiently early stage.

Towards the end of 2002, the proportion made up of the unemployed of all 55-59-year-olds had fallen below 14 %. Unemployment had fallen particularly among those aged 55-57. It seems fully possible that those belonging to the large cohorts born between 1945 and 1949 will not use the channel to unemployment pension to the same extent as the cohorts before them.

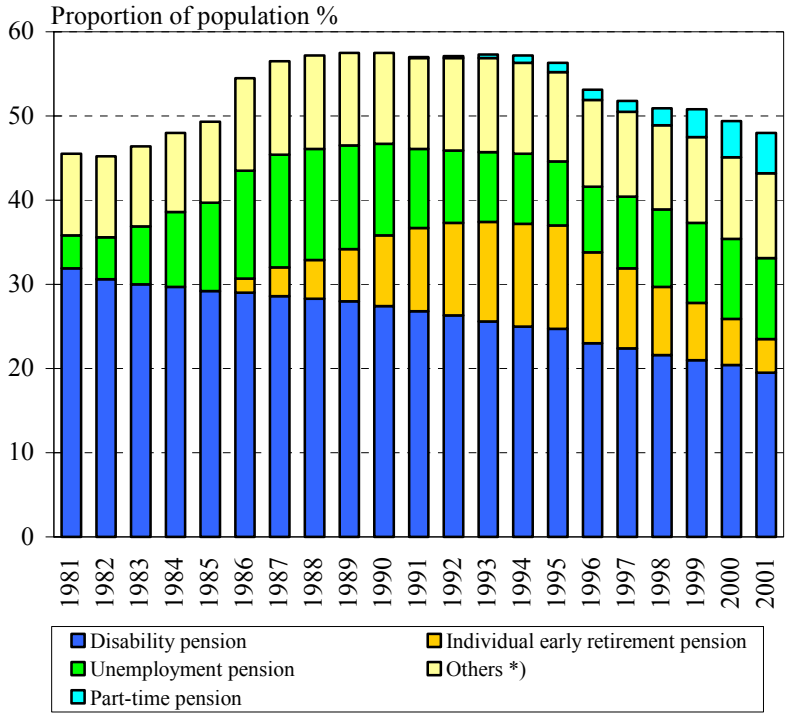
Table 4. Figures describing the labour market status and retirement status of ageing workers at the end on 1997 – 2002

	1997	1998	1999	2000	2001	2002
The employed, % of age group						
55-59-year-olds	49.3	52.5	56.5	61.2	64.4	65.1
- Part-time	5.7	6.2	7.5	10.3	9.4	10.5
- Full-time	43.6	46.2	49.0	50.9	55.0	54.6
60-64-year-olds	19.5	19.3	21.8	24.7	26.1	26.4
- Part-time	5.0	5.2	6.9	8.1	7.9	9.1
- Full-time	14.5	14.1	14.9	16.6	18.2	17.3
Pension recipients, % of age group[2]						
55-59-year-olds	27.4	26.3	26.6	26.5	25.4	..
- Part-time	0.8	1.9	3.7	4.8	5.1	6.8
- Full-time	26.7	24.4	22.9	21.7	20.3	..
60-64-year-olds	79.3	78.1	77.0	76.5	74.5	..
- Part-time	1.9	2.2	2.9	3.7	4.5	5.1
- Full-time	77.4	75.9	74.1	72.8	70.0	..
The unemployed, % of age group[3]						
55-59- year-olds	21.1	20.0	18.9	16.2	14.3	13.6
60-64- year-olds	4.1	4.1	4.7	4.5	4.8	4.6
Expected years of future employment at age 50[4]	7.2	7.4	7.8	8.1	8.5	..

[1] Statistics Finland, labour survey, fourth quarter 1997-2002.
[2] Central Pension security Institute/Social Insurance Institution, joint statistics
[3] Ministry of Labour
[4] Statistics Finland, labour survey and life-time tables.

When the over-55s leave working life, they are much more likely to take up a pension than become unemployed. Pension is at present the primary exit route from working life from age 58 onwards. Prior to that age, unemployment is the primary route. The stream of people leaving work to take up early retirement pension has however diminished. At the same time, disability pension and individual early retirement pension have been replaced by unemployment pension and part-time pension (Figure 20).

Figure 20. Pension recipients aged 55 - 64 by type of pension as a proportion of population 1981 – 2001

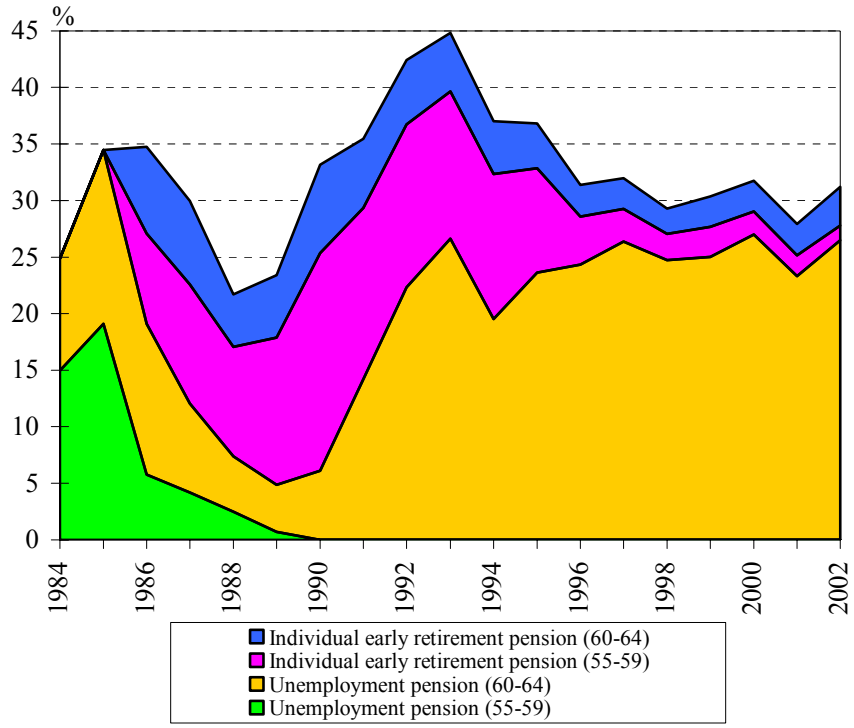


*) Old-age pension, special farmers' pensions, ex-servicemen's and veterans' pension
Pension recipients include all those receiving employment and/or national pension. As of 1996, only pension recipients residing in Finland are included. Before that, pension recipients residing abroad are also included in the figures.

Source: Central Pension Security Institute

Among the age group 60 – 64, unemployment pension is almost as important as pension type as disability pension. Economic incentives also encourage people to seek unemployment pension. Compared to unemployment allowance, pension is a very competitive alternative, even though the level of unemployment pension was weakened in 2000. For people at risk of unemployment, the attraction of pension as an alternative is increased by the fact that following a period of unemployment, starting salaries are clearly lower than the average salaries of people of the same age. The eagerness of low-income workers to take up a pension is partly explained by the fact that their net income is likely to fall less than that of people with larger salaries. A low level of education, living in eastern or northern Finland, spouse's unemployment and working in the private sector also increase the likelihood of taking up unemployment pension.

Figure 21. New unemployment pensions and individual early retirement pensions as a proportion of the 55 – 64 age group in 1984–2002



The average age of people taking up a pension continued to rise slowly in 2001, being little over 59 that year. The real age of leaving working life also rose, among other things because the employment situation was improved, the number of people in the channel leading to unemployment pension was diminished and part-time pensions increased in popularity (in statistics, part-time pensioners are classified as being at work). However, the onset of new pensions has not been postponed in any significant manner in recent years, which means that a rise in retirement age in the future is by no means self-evident. There is less pressure to take up a pension if the demands of working life can be reconciled with the increasing age of workers and their physical and mental functional capacity.

4.6.5 Removing incentive traps

Unemployment trap refers to a situation where accepting a low-paid job is hardly profitable, because nearly the same level of income can be attained by living on various types of social benefits. Income trap refers to a situation where an increase in earnings does not significantly increase the amount of disposable income of a household. Tightened taxation, the reduction of benefits subject to means-testing and the rise of service fees eat away at the rise in income brought about by increasing earnings.

The report published by the Ministry of Finance (1999) assessed the removal of incentive traps in light of various examples. The examples focused on households relying on basic social security. The report came to the conclusion that the objectives related to unemployment traps were achieved, but the removal of income

traps had not been an equal success. Simultaneous removal of unemployment and income traps is very difficult, unless more resources are available.

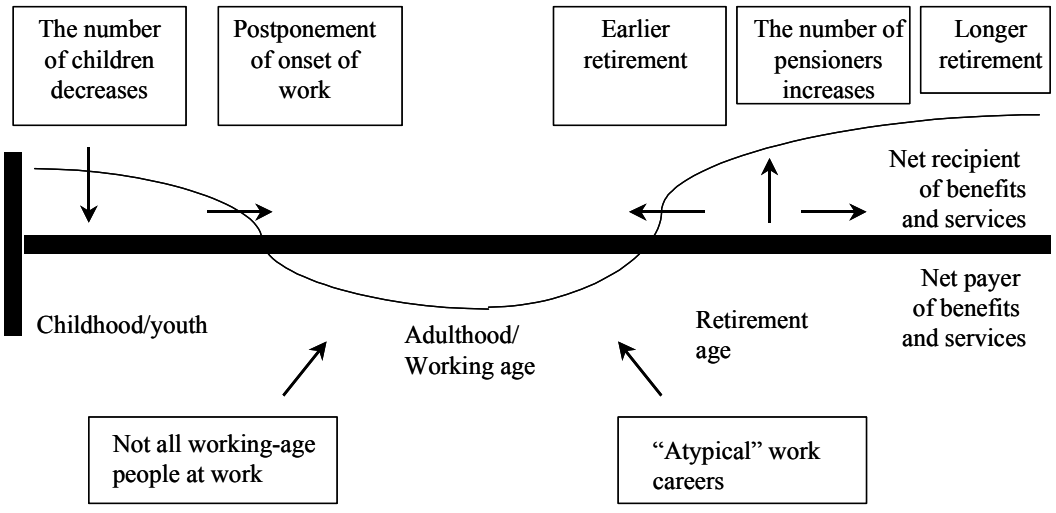
In a study by the Government Institute for Economic Research (2001) the impact of reforms on incentives to work and the supply of labour was evaluated with the aid of statistical data, in addition to practical examples. According to the simulation calculations , the supply of labour grew by a good 30,000 person years as a combined result of various reforms. The estimate does, however, involve a great degree of uncertainty. It is not easy to separate the impact of reforms from those of changes in economic activity and other factors.

5. Well-functioning services and reasonable income security

The implementation of the National Health Project and the proposals of the National Social Welfare Development Project make up the areas of emphasis of the development of services and their content. In autumn 2003 the Council of State is to ratify the Target and Action Programme for social welfare and health care for 2004-2007. The Target and Action Programme strengthens the recommendations that are based on the Cabinet's programme as to concrete measures concerning the integrate development of health care and social welfare and improves cooperation between different administrative sectors.

Social protection benefits and services are needed throughout the entire life span. Many of the costs due to social protection are related to the individual life cycle, age and natural development with different phases. In the course of a long life, childhood, education, illness, possible unemployment as well as ageing and old age give rise to costs and different service needs.

Figure 22. Change in service and benefit need during the life cycle



Source: Kantola & Kautto 2002

The maintenance and provision of social protection services and benefits must correspond to both demographic changes and changes in life span profiles. The demands of demographic changes are seen most clearly in regional service needs: municipalities experiencing population loss and gain due to migration have different service profiles. The situation is complicated further by the fact that the traditional life cycle does not exist to the same extent as before. Education, the job market and family life have all undergone changes, both as to their content and timing.

In this publication social expenditure, services and benefits are looked at using the so-called ESSPROS classification (The European System of Integrated Social Protection Statistics), which is the social protection statistics system of the EU. In the ESSPROS system risks and needs that may give rise to social benefits are classified as follows:

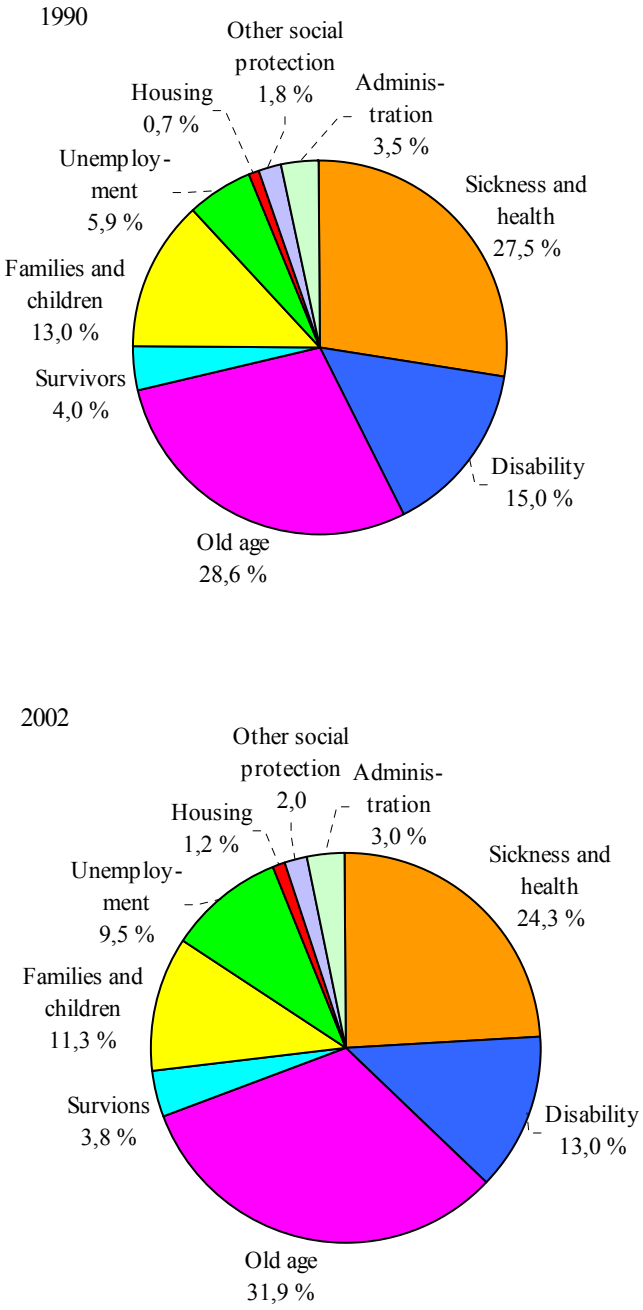
1. *sickness and health*
2. *disability*
3. *old age*
4. *widows and other survivors*
5. *families and children*
6. *unemployment*
7. *housing*
8. *social exclusion not classified elsewhere*

The target group is defined according to the ultimate aim of the benefit. Benefits are divided into cash benefits, or social assistance, and benefits given in the form of services.

In 2002, nearly one third of all social protection expenditure was on old age. The second largest expense category was sickness and health. Taken together, theses two make up over half of all social protection expenditure. Their share will continue to grow in the years to come. The share of unemployment expenditure will rise slightly in the coming few years, but it will remain around 10 %. The share of families with children will decrease somewhat, to about 11 %, while the expenditure on disability will decrease to just under 13 % (Figure 23).

Compared to 1990, the share of total social expenditure spent on sickness and health as well as disability has clearly been reduced. At the same time, the share of expenditure on unemployment and old age has grown. The changes in the age structure of the population as well as economic and employment trends are reflected in social expenditure.

Figure 23. Distribution of social protection expenditure according to target group in 1990 and 2002



5.1 Sickness and health

	2000	2001	2002*	2003*
Expenditure on main category (€ million)	7 629	8 263	8 950	9 400
- of which, cash benefits (€ million)	1 524	1 624	1 800	1 900
% of social protection expenditure	23.1	23.7	23.8	24.6
% of GDP	5.8	6.1	6.4	6.5
Sick leave days, as % of work days	3.9	3.7	3.9	3.8
Persons receiving sickness allowance during the year	296 300	301 300	320 900	335 700
Drug prescriptions/inhabitant	7.3	7.3	7.4	7.4
Primary health care				
- medical and health care visits/inhabitant	4.9	4.8	4.9	4.9
- dental care visits/inhabitant	0.94	0.95	0.97	1.0
- patients treated in hospital	219 900	210 500	215 000	220 000
Specialised medical care				
- outpatient visits/inhabitant	1.20	1.23	1.25	1.25
- patients treated in hospital (1,000)	745	719	730	720

*estimate

Expenditure on sickness and health is estimated to total almost € 9.0 billion in 2002 and € 9.4 billion in 2003. This is almost a fifth of all social protection expenditure and about 6.5 % of GDP. The share of social protection expenditure attributable to sickness and health has grown rapidly in recent years after the cutbacks made in the 1990s. The share will continue to rise as demand goes up and as health care is increasingly prioritised in society.

5.1.1 Finnish health care costs below EU average

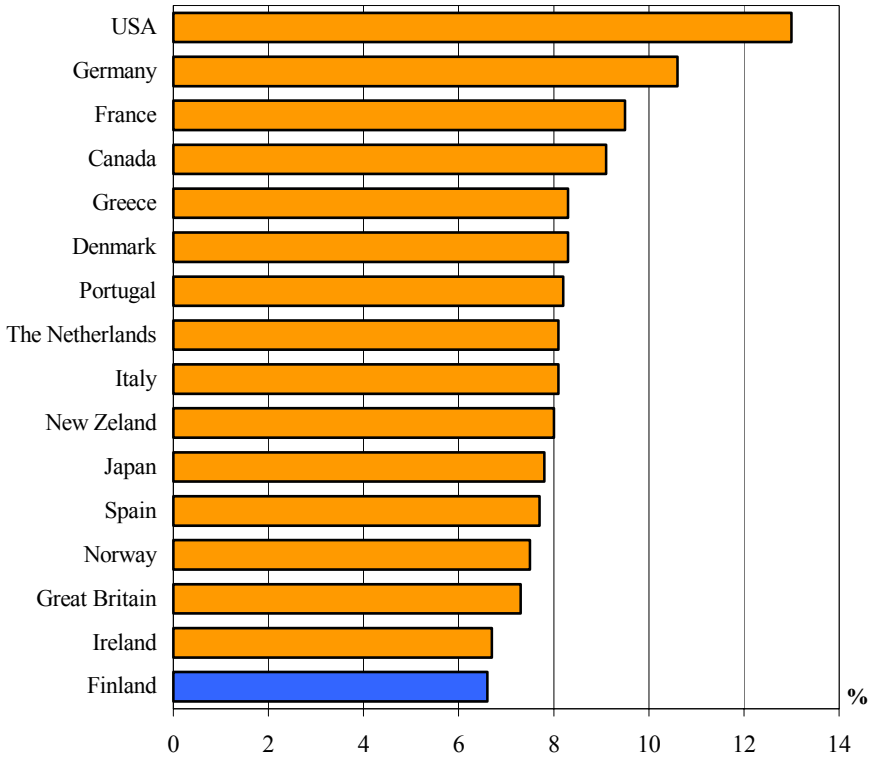
In the year 2000, overall health expenditure in Finland[5] was more clearly than before below the EU average, both as a proportion of GDP (6.6 %) and per capita. Between 1990-2000 health care costs rose by 28 % per capita in Finland - a figure that is among the lowest in the OECD countries. The costs of publicly funded health care in Finland as a proportion of GDP are also the lowest in all EU member states, lower even than in the US. In the beginning of the 1990s the share of publicly funded costs was among the highest in all OECD countries (figures 24, 25 and 26.)

Health care costs in cities showed a clear increase in 2001. The costs in the 11 largest cities went up by 7 % per inhabitant. This is partly due to a conscious effort to prioritise health care, because the year 2001 was economically more positive than the preceding ones. The total demand for hospital services continued to show a clear rise in 2002.

Half of municipal health care expenditure goes to primary health care and half to specialised medical care. The more effective the operation of the primary health care system, the lower the total expenditure on health care. 40 % of health care costs goes to working-age population and half to pensioners.

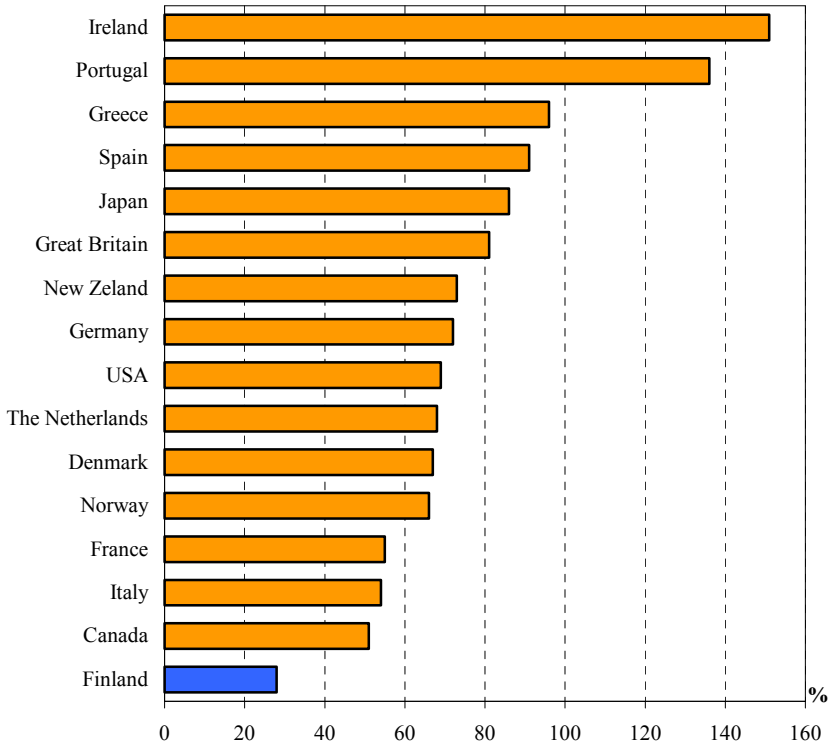
5 The OECD definition includes all private health care costs, but not salaries or daily allowance paid out during sick leave.

Figure 24. Total health care expenditure in OECD countries, as a proportion of GDP in 2000, %



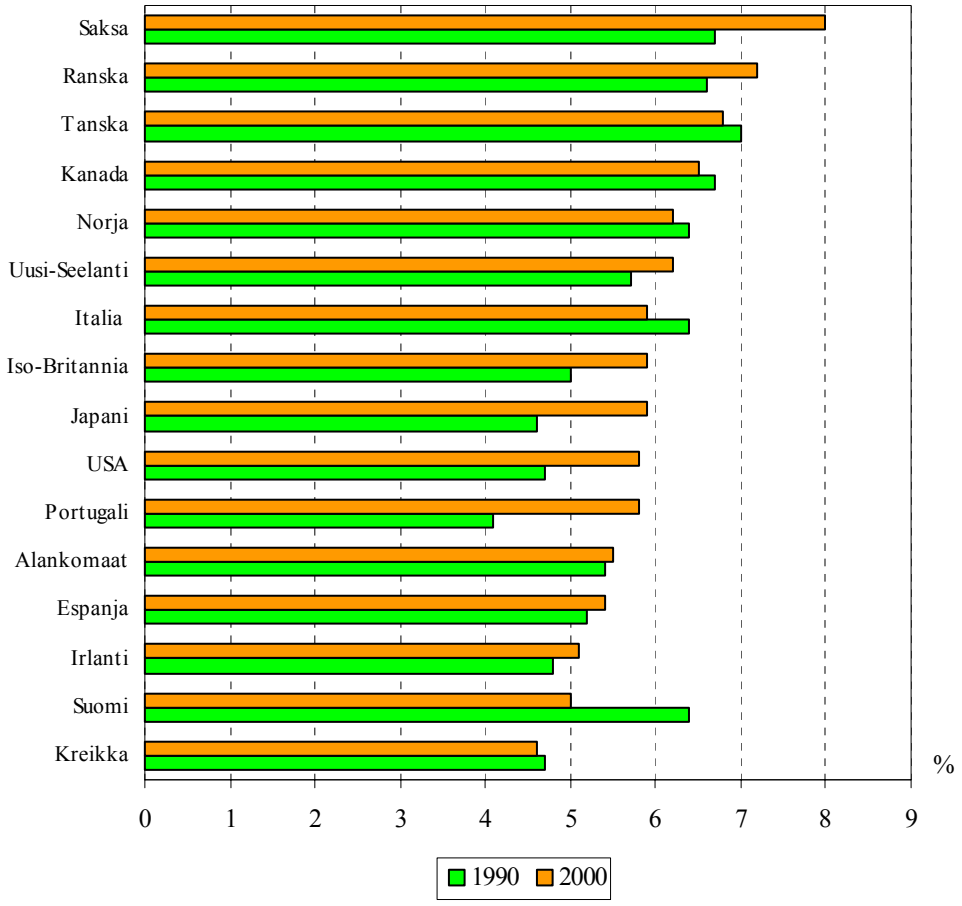
Source: OECD Health Data 20002

Figure 25. Actual rise in health care expenditure in some OECD countries between 1990 and 2000, %



Source: OECD Health Data 2002

Figure 26. Publicly funded health care expenditure as a proportion of GDP in some OECD countries, in 1990 and 2000, %



Source: OECD Health Data 2002

The operation of hospitals in the Helsinki area has come under a lot of criticism. Costs have been high, while operation has at times been ineffective. In order to make the situation more manageable, the Helsinki and Uusimaa Hospital District was established in 2000 to replace the hospital districts of Helsinki University Central Hospital, Helsinki and Uusimaa. This has to some extent helped to reduce overlapping and cut costs, but operations need to be rationalised even more. The aim is to centralise further such operations as x-ray, laboratory and catering services. The objective is to dismantle overlapping, to reduce the number of facilities offering emergency services and to reduce the number of staff gradually through so-called natural departures.

5.1.2 Clients mainly satisfied with health care centres

Despite the general criticism against health care, citizens are mainly satisfied with the health care system, according to various surveys and studies. According to an extensive primary care client satisfaction survey carried out in large cities in 2002, only 10 % were dissatisfied with the services of health care centres. The clients were satisfied with the conduct and professional competence of doctors and public health nurses. According to survey results, the most pressing area in need of development is accessing the health care centre by phone. There were however clear differences between cities.

In the public opinion, the quality of public health care services has deteriorated since 1998. People feel that the accessibility of services has become worse in particular. According to estimates, however, inappropriately long queues and waiting times only apply to a small minority of patients. The need for care has increased due to the growing age of the population as well as new treatment modalities that can nowadays be used to treat illnesses and symptoms that were formerly left untreated.

5.1.3 More people queuing for operations

The effects of the doctors' strike in 2001 are still felt in the operation of hospitals. The operation queues that formed during the strike are being processed, but at the same time, the numbers of new referrals for operation are rising. The share of procedures performed as same-day surgery is also increasing. The shortage of specialised doctors may however prevent many hospitals from providing the number of operations needed.

In order to reduce the current number of patients in line for an operation, the Parliament granted in autumn 2002 an additional € 25 million to hospital districts aimed at reducing the number of patients in line for examinations or treatment. A condition for the additional appropriation was that the municipalities making up the hospital districts pay for 50 % of the services provided. The reduction of the number of people in line for an operation was only launched towards the end of 2002, and will continue during 2003. The special appropriation has financed the treatment of about 8 % of the patients of outpatient clinics, and the number of patients operated on and treated for cataracts is about 20 % higher than normal. In accordance with the proposal of the National Health Project, the principles of access to care will be set down in legislation by 2005.

OECD has studied to some extent the patient queues in different countries. According to OECD estimates a general maximum queuing time has not proved to be an efficient solution in the long term. In the short term queues are reduced, but they soon return back to the initial situation. If access to treatment is promised in all cases within the same period of time, there is a danger that pressing and serious cases are not treated sufficiently quickly, as resources are used for treating less urgent cases. The OECD recommends that priority criteria be used in setting up queuing criteria. Reasonable queues ensure efficient operation. OECD also warns against allocating separate funds for queue reduction, because they may act as incentives of the wrong kind – hospitals may even profit from the maintenance of long queues in the hope of extra appropriations.

5.1.4 The working conditions of doctors need attention

Nearly half of all doctors work in a hospital, while only slightly less than one fourth work in a health care centre. 5 % work in occupational health and 10 % work (full-time) in the private sector. The proportion of doctors working in health centres has diminished in the past ten years. Are doctors working in the right places? Emphasis on preventive work and the seamless linkage of well-baby clinics and school health care to primary health care have been regarded as the strengths of the Finnish health-care system. At the same time, more tasks have been transferred to primary health care. This should also be reflected in the number of doctors working in primary health care. A well-functioning health care centre is the foundation of the health care system.

The shortage of doctors in health care centres has continued to grow. In autumn 2002, one in ten of health care centre doctor's posts was unfilled. As posts are unfilled, an increasing workload is placed on a shrinking number of doctors. This means an added burden of work, which increases the risk that even the remaining doctors seek other types of employment. This vicious circle needs to be stopped. The problem has partly been addressed by taking on doctors from the private sector to work on strenuous on-call shifts. Purchased services can be developed and used in primary health care as well, particularly in on-call duties. However, the work of general practitioners in particular in based on good knowledge of the patient. A long-term doctor-patient relationship increases the efficiency and quality of health care.

A permanent solution to this problem can only be achieved by making the health care centre more attractive as a place of work. One way of attaining this is by ensuring adequate pay, but that alone does not suffice. Working conditions should be improved in particular. Management policies should be up-to-date, the work safe, continuing education and stand-ins should be readily available. In addition, doctors need help from their colleagues in solving difficult problems. These objectives can be reached by organising primary health care on a regional basis, in accordance with the proposal of the National Health Project.

There is a shortage of specialised doctors in hospitals as well, particularly in psychiatry. The shortage of specialised physicians will probably continue for several years, because the number of doctors in specialty training exceeds only slightly the number of those about to retire in the coming few years. The shortage of doctors in hospitals is a hindrance to access to and availability of services in the majority of municipalities.

5.1.5 The new school health care monitoring system

According to the Primary Health Care Act, the provision of school health care is the municipalities' obligation. The importance of promoting the well-being of children and developing school health care was emphasised in the 2002 state budget. An additional € 70 million was allocated to the government grants to fund social welfare and health care in municipalities. When school health care is provided in an efficient manner, savings can be attained in special services. The Ministry of Social Affairs and Health, the National Research and Development Centre for Welfare and Health Stakes and the National Board of Education have jointly prepared a guide entitled School Health care 2002. In it, recommendations are given to municipalities regarding good practices and work forms in comprehensive school health care. A new follow-up system is being developed for school health care to monitor the mental and social growth of pupils and the well-being of the entire school community.

5.1.6 Municipal dental care now covers the entire population

The scope of municipal dental care was extended in April 2001. That is when municipalities were to arrange dental care for those born in 1956 or later. With the reform, the provision of dental care services to adults at health care centres became more extensive, and the availability of emergency dental care improved. In April 2001, a little over 50 % of health care services were already able to provide dental care to all those eligible. In order to be able to implement the reform, municipalities took on almost 300 dental care professionals in 2001. The greatest increases in the number of staff were seen in Helsinki, Espoo and Vantaa. Five health care centres experimented with purchasing

services in the private sector. The reliance on purchased services has been most prevalent in Helsinki.

As of the beginning of 2002, the scope municipal dental care was extended to those born in 1946 and later. This called for further increases in the number of staff in oral health care in municipalities. The increases were slightly smaller than in 2001. Twenty health care centres were unable to fulfil the new obligation, and they were forced to reduce their service provision, giving shortage of resources as the reason for their inability to extend the scope of services. The reforms have improves the availability of emergency dental care in particular. On the other hand, access to non-urgent care has slowed down, and many health care centres have introduced waiting lists. Some health care centres do not provide on-call care on Sundays.

From the beginning of December 2002, age limits ceased to apply, and the entire population is now covered by dental care. It is to be expected, at least in the largest municipalities, that they will not, at least initially, be able to provide other than emergency care to older age groups. The situation is made easier by the fact that the scope of national health insurance refunds on dental treatment expenses have been extended to cover the entire population.

5.1.7 Medicine costs rising at an increasing rate - generic drugs to the rescue

In 2002 the expenditure on medicine refunds rose at an increasing pace, showing growth by € 92 million, or 12 %. Most of the rise is due to a switch to use more expensive drugs, as well as a clear increase in the acceptance of new drugs to be covered by special reimbursement. The fact that the treatment of many common illnesses has been transferred from hospitals and specialised care to primary health care also contributes to the increase in the amount of refunds. The rise in the number of refunds is expected to continue on nearly the same level in the coming few years as well.

Health care centre physicians prescribe 52 % of all prescription drugs. Prescriptions to the elderly constitute the major share of all prescriptions written by health care centre doctors. Half of their prescriptions are written to patients over 65 who are in institutional care.

About one million people are entitled to special reimbursement on the costs of medicines on the basis of a chronic or serious illness. Hypertension is the most common disease entitled to special reimbursement. Additional refunds were paid in 2002 to nearly 123,400 persons whose medical expenses had reached the personal annual limit (€ 594). This represents a 10 % increase, and the number of recipients continues to grow.

The rise in the number of people whose medical expenses reached the personal annual limit is partly due to the rapid rise in medicine costs. After the personal annual limit is exceeded, all medicines are free of charge to the patient. About half of those who have exceeded their annual personal limit are 65 or older.

In order to curb the rise in the cost of medicines, generic drug substitution will be introduced in Finland in April 2003. This reform means that a medicine prescribed by a doctor is replaced in the pharmacy by a cheaper alternative. The doctor can prohibit the substitution only if there is a valid medical reason for doing so. No substitution is necessary if the savings attained by the substitution is not significant. The patient can refuse to accept the substitution without indicating the reasons for doing so. The goal of the

reform is to reach annual savings of € 15 million, which is about 2 % of medicine refunds. The reform brings savings to the society as a whole as well as the individual customer, but it also brings an added workload to pharmacies.

Medical preparations are currently protected by a patent for 20 years in EU countries. When the patent is no longer valid, the molecule can be freely copied. Copies of an original preparation after its patent protection has ceased to apply are called generic drugs, and they are generally less expensive than original drugs. Preparations containing the same substance are marketed under several brand names. Generic drugs have so far been sold in modest numbers in Finland, compared to countries such as Great Britain, the United States, Canada or Denmark. Measures have been launched in Germany, France, Belgium and Italy to increase the use of generic drug in order to cut costs. The system has been in use in Sweden since October 2002, and according to quick estimates, significant savings can be expected. Doctors have been against the substitution in less than 2 % of the cases, and in pharmacies 4 % of customers have paid the difference in price between the prescribed drug and the cheapest alternative.

In Finland, the prescriptions written by doctors are fairly seldom ones for the cheapest alternatives. This may be due to the fact that doctors have compiled their personal ”medicine collections” with names, dosages and package sizes they are familiar with. Long-term medication is usually continued by renewing the former prescription, and this practice may be well motivated when elderly people are concerned. Antimicrobics as well anti-inflammatory painkillers, on the other hand, are nearly always used for a limited period, which is why generic drugs are an excellent alternative. The prescription of generic drugs is made more difficult by the fact that the names of substances are usually longer and more complicated than brand names.

In spring 2003, a new Development Centre for Drug Treatment will be set up under the auspices of the National Agency for Medicines. The task of the centre is to provide and distribute information on medicines, issue recommendations, give advice and provide regional training. It replaces the former ROHTO programme and gives it work an official form. The centre promotes rational drug treatment and provides training for physicians.

5.1.8 Medicine refund system reformed in 2006?

The problem with the current system of refunds on medicine costs is that is complicated and hard for the patient to understand, in addition to being unable to curb the rise in medicine costs to a sufficient degree. According to a working group on medicine refund issues, the system needs to be reformed, and special reimbursement must be targeted at necessary drug treatment of people with serious chronic diseases.

According to the proposal of the working group, the system would include three reimbursement categories: basic reimbursement, special reimbursement and zero reimbursement. Basic reimbursement would be 50 %, and special reimbursement 90 % of the costs of the medicine. At present there are two special reimbursement categories (75 % and 100 %). According to the proposal, the current fixed deductible (€ 5/10 per time of purchase) would be discontinued. This would make this system more explicit. The Finnish system of fixed deductibles has been an exception from common European practice. According to the proposal, the annual deductible (the so called personal

annual limit) should be kept on, so that the costs of medicines to the patients do not reach unreasonably high levels. The deductible would be about the same as at the present, around € 600. However, after medicine costs exceed the personal annual limit, patients would pay the fixed deductible, amounting to about € 2 per prescription.

The working group proposes that the reforms enter into force as of the beginning of 2006.

5.1.9 Proposals of the National Health Project

In autumn 2001, the Council of State launched a national project to ensure the future of health care. The aim of the project was to assess current and future threats to the service system and to come up with a plan and implementation programme to remove the problems. According to the proposals of the project, the corner stones of the Finnish health care system in the future continue to be the fact that it is funded by tax revenue, guided by the state, and the responsibility for health care provision lies with the municipalities. According to the proposal, care and treatment that is medically motivated must be provided within six months at the latest after decision has been made on the matter. If the municipality or joint municipal board is unable to provide treatment within the prescribed time, it must be arranged elsewhere (another municipal unit, in the private sector or third sector) without changing the patient's deductible. The principle of access to care within a reasonable time will be set down in law by the ear 2005. More detailed criteria will be worked out jointly by the Ministry of Social Affairs and Health and the Association of Finnish Local and Regional Authorities.

The growing need of health care services in municipalities, limited resources and the weakened guidance role of the central government have to some extent increased worries about the availability and quality of services aimed at citizens. In order to ensure high-quality services, various quality recommendations have been drawn up in recent years, e.g. for mental health work and elderly care. It is suggested in the project proposal that the government grants to finance the operating expenses of municipal social welfare and health care costs be increased stepwise, taking into consideration the immediate need for funding and the growth of service need. An additional € 0.35 million is needed immediately in municipal health care. With the aid of this, operation and procedure queues as well as the delay in the treatment of cancer can be reduced significantly, quality recommendations can be implemented and primary health care can be improved. In 2003, the government grants paid to municipalities were increased slightly. The service system is developed by phases in the form of programme work, for which purpose € 3 million is allocated in the 2003 state budget, in addition to € 30 million annually between 2004 and 2007.

Rationalisation measures in both primary and specialised health care are a precondition for the extra state funding. Primary health care must primarily be arranged on a regional basis, so that the population base for each unit consists of 20,000-30,000 people and there are 12-18 doctors working in each unit. Studies show that that the costs of specialised medical care can only be predicted reliably in municipalities with more than 20,000 inhabitants. The intention is however not to incorporate small, well-functioning health-care centres into larger units. The Project proposes that the system of special payment category be abolished. Hospital staff could use the outpatient clinics of the

hospital for extra work after their regular hours, but the conditions for this should be agreed on with the employer. As far as laboratories and imaging are concerned, there is a trend towards units made up by one or several hospital districts, making use of municipal enterprises and the latest advances in information technology. Nationwide electronic patient journals will also be introduced, and the government supports their development with separate funding.

The Project also recommends that common rules, principles and agreements be set down with various service providers. The aim is to ensure that the treatment chain is functional. A comprehensive model of the social welfare and health care service system should be drawn up, comprising both public and private services, and services provided by the third sector. The development and operation of the model should be carried out within a network coordinated by the municipalities. For this purpose, the Ministry of Social Affairs and Health appointed a management group in April 2004for ensuring the future of health care.

It has also been discussed that more health-care professionals should be trained, and that continuing education should be available for health-care staff more systematically than before. In autumn 2002, the number of new medical students beginning their studies each year was raised from 550 to 600.

5.1.10 Changes in client fee policy and financing of health insurance?

The social and health care client fee policy has been charted as part of the National Health Project. According to the survey, hurried and uncoordinated changes to municipal client fees and health insurance deductibles have been made in the past ten years. Because current client fee regulations are interpreted in a variety of ways, this has led to unequal treatment of clients, both within a single municipality and between municipalities. All in all, the regulations concerning social and health care client fees are regarded as being too complicated. In addition, the monitoring of personal annual limits in connection with various municipal services and health insurance requires a great input of work on the part of staff.

The working group consisting of civil servants that looked at the principles of financing health insurance considers it important that the financing of health insurance be made more explicit by dividing it into earnings insurance and health care insurance. Earnings insurance, or earned income insurance, would be financed in accordance with the insurance principle by earnings-based fees contributed by the employer and the employer. The central government would finance the minimum daily allowance costs. Health care insurance would cover the entire population, meaning that its financing base can be broader. Also those receiving pensions and social benefits would participate in the financing of health care costs.

5.2 Disability

	2000	2001	2002*	2003*
Expenditure on main category (€ million)	4 467	4 621	4 700	4 700
- of which, cash benefits (€ million)	3 455	3 520	3 600	3 600
- % of social protection expenditure	13.5	13.3	12.8	12.4
- % of GDP	3.4	3.4	3.4	3.3
Recipients of disability pensions on 31 Dec	276 300	267 900	267 700	272 900
Recipients of disability allowance on 31 Dec	12 000	12 500	20 200	20 500
Recipients of transport services during the year	66 600	71 000	73 000	75 000
Disabled households receiving home help during the year	6 380	6 300	6 350	6 400
Recipients of informal care allowance under 65 during the year	8 100	8 700	9 000	9 200

*estimate

Social protection expenditure on disability is estimated to rise to € 4,700 million in 2003. The share of expenditure on disability has been declining for a long time. The bulk of expenditure (55 %) is on disability pensions. Almost one fourth (24 %) is service expenditure and the rest is used to cover costs of income security due to inability to work, accidents and disability.

The programme of Prime Minister Jäätteenmäki's government emphasises ensuring the accessibility of services for the disabled and the equal treatment of people with disabilities. The government is committed to issuing a disabled policy report during its mandate.

5.2.1 The objective: a population with better working and functional capacity

The key objective of the policy related to working and functional capacity of the population is to raise the employment rate of ageing (45+) employees and to postpone retirement. Another important objective is to rehabilitate young disabled persons for the labour market and improve their possibilities to work. The third central disabled policy objective is to maintain the functional capacity of the entire population and to implement the human rights of the disabled by promoting their equal participation in different walks of life.

It is estimated that 5 % of the Finnish population, i.e. 250,000 people, have a significant disability or functional hindrance. The proportion of those with a severe disability whose functional hindrance is not related to old age is estimated to be less than 1 %. The number of disabled persons who need a lot of services e.g. to help them live independently is relatively small, an estimated 0.4 – 0.8 % of the population, or 20,000-40,000 persons. According to a survey on the employment of persons with disabilities carried out in conjunction with the 2002 Employment Survey, about 20 % of people aged 15-74 have a long-term illness that restricts the type or amount of work.

Improving the employment situation and other working life issues are an integral part of the implementation of equality of the disabled. In international disability policy, the "working line" is being increasingly emphasised. It involves rehabilitation, education and training as well as other measures aimed at removing the hindrances caused by illness and injuries, and the goal is to have as many people as possible to stay on at work or

return to work after rehabilitation. According to this view, lowered functional ability or disability does not by any means always equal inability to work. Long-term reliance on social protection can be diminished by providing active alternatives at a sufficiently early stage and by giving support in a flexible manner according to individual needs.

There is considerable potential for improving the employment rate of persons with disabilities in Finland (Table 5). Significant improvement of the employment rate does however call for cooperation and strong commitment to reaching set objectives on the part of various disability policy actors – the state, municipalities, persons with disabilities, employers and various organisations.

Table 5. Conditions for employment among some groups outside the work force (%)

Conditions for employment	Pensioners	The long-term ill	The unemployed
Employment possible without help or support	28	12	58
Need help or support	29	27	38
Employment not possible	43	61	4
Total	100	100	100
(N)	(433)	(1,356)	(296)

Source: Mannila et al. 2003

The mainstreaming of disabled policy means that all administrative fields assume responsibility for disabled issues in their own policy as well as respond to the needs of the disabled, primarily with the aid of general systems in use within each administrative field. The basic principle of disabled policy is accessibility, in broad sense of the word. The principle of accessibility should be incorporated in all planning and decision-making. Besides social protection, equal opportunities to participation for the disabled and the prevention of exclusion are affected by increasing accessibility in housing and the rest of the living environment, transportation, communication, the utilisation of new technology, education and the working life.

The implementation of accessibility as part of the planning of housing, living and work environments does not in most cases entail more costs to society, especially in the long run, than special solutions and alterations. Progress has been made in the implementation of accessibility, but shortcomings in housing conditions and the living environment as well as the weak status of the disabled in the labour market increase significantly the costs of social assistance and service while weakening the conditions of well-being among people with disabilities.

The progress made in the implementation of accessibility and the development of availability and flexibility of general services is however not sufficient to ensure the equality of the most severely disabled. In order to cope, they need individual services and support measures regulated with special legislation. The aim of services for the disabled has been to reduce the volume of institutionalised care and to develop care in the community. The structure of disabled services has evolved towards care in the community, and the

number of clients of some disabled services has shown a steady rise. On the other hand, there is considerable regional variation in the availability and effectiveness of services due to economic difficulties and lack of special competence in the municipalities. In the early years of the 21st century we are faced with new development needs in relation to disabled services and the legislation concerning them.

5.2.1 The level of disability pensions slowly rising

There are about 273,000 recipients of disability pensions. The gradual reduction of the former basic amount of the national pension slowed down the development of disability pensions from 1996 onwards. The remaining basic amount of the national pensions was withdrawn at the beginning of 2001. As of the 1996 pension reform, the level of new disability pensions has been lowered e.g. by the fact that the national pension is full deductible. When the disability pension exceeds a certain level, no national pension is paid (Figure 27). The cuts in pension security have partly been compensated for by lighter taxation of pensioners. The increased health insurance payment collected based on pensions was abolished from the beginning of 2003.

The index adjustments of employment pensions of persons under 65 are nowadays based on the level of wages and prices, each accounting for 50 %. National pensions are only adjusted on the basis of the cost of living index. Disabled persons who have taken up a disability pension at an early age and whose work career is either short or entirely lacking are in the weakest position in terms of income development. Many of those with mental handicaps, mental problems or severe congenital physical handicaps rely on minimum pension throughout their adult life, which increases the risk of economic and social exclusion.

At the end of 2001, 53 % of disability pension recipients were men. The average total pension of all disability pension recipients was € 928 /month. The corresponding sum was € 832 for women and € 1,011 for men. There is considerable variation in the distribution of pension levels between women and men. 73 % of women and 58 % of men received a total pension that was under € 1,000/month (Figure 28).

Figure 27. Trends in disability pensions in 1990 - 2003

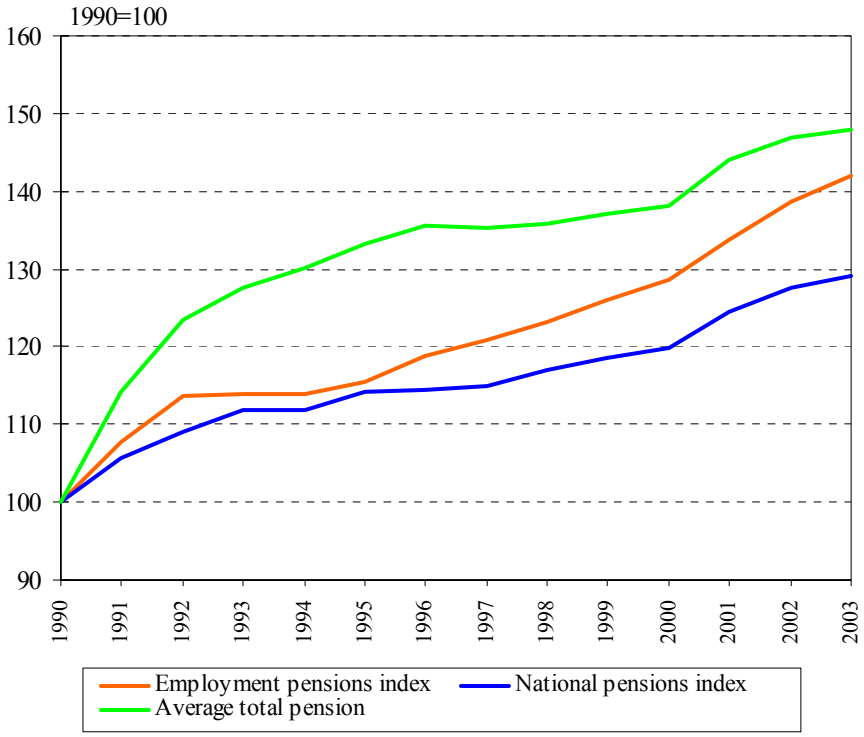
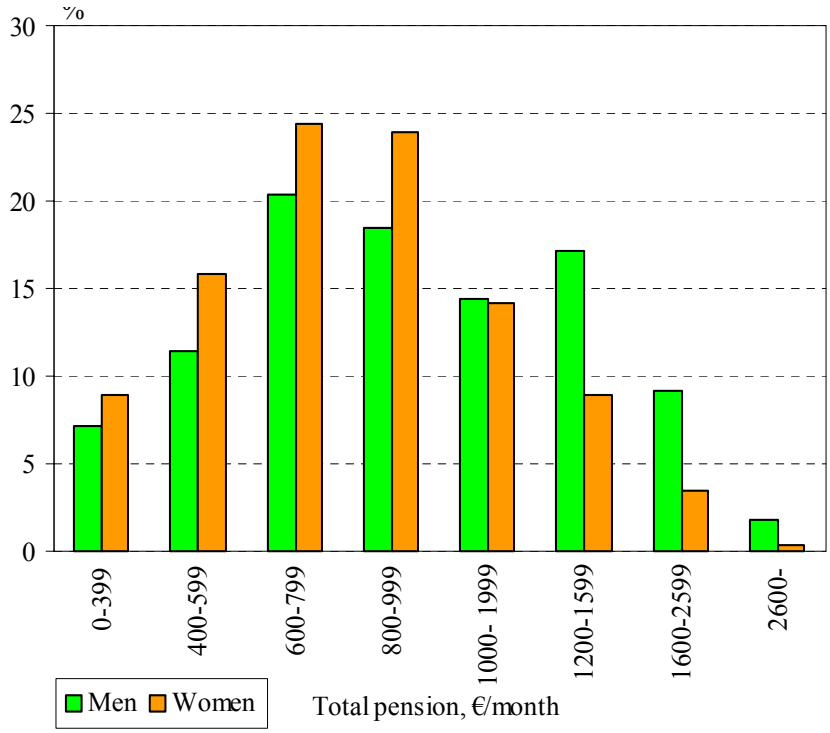


Figure 28. Distribution of total pension of disability pension recipients on 31 December 2001, %



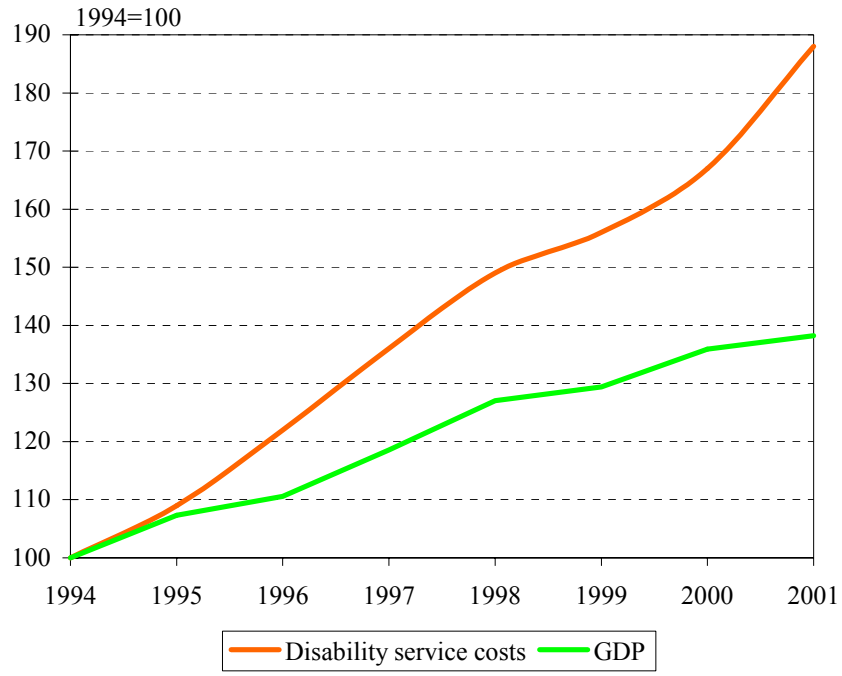
Source: Central Pension Security Institute

Disability allowance is a form of financial support provided by the central government intended to help working-age (16-64 yrs) people with disabilities not receiving a pension to manage in their daily lives, at work and in their studies. It is paid at three levels (€ 76.87, € 179.37 and € 333.20/month), depending on the degree of disability, need for support and any special costs due to disability. The number of recipients of disability allowance has remained relatively constant for many years; at the end of 2002, it was paid out to 12,500 persons. However, the number of new disability allowances started to increase in 1999. This was partly a result of the reform targeting young persons with severe disabilities, which made rehabilitation allowance the primary alternative instead of a pension. The majority of the young disabled receiving rehabilitation allowance are entitled to a raised or special disability allowance.

5.2.2 Disability service costs continued to rise in 2001 – transportation services the greatest expenditure category

The aim of the Services and Assistance for the Disabled Act is to improve the possibilities of disabled persons to live and function as equal members of the society and to prevent and abolish hindrances and obstacles caused by disability. According to a survey currently being carried out, an estimated 87,000-89,000 persons, or little over one per cent of the Finnish population, received various services and benefits in accordance with the Services and Assistance for the Disabled Act in 2001 (Figure 29). In 2001, the costs totalled € 164 million, showing real growth from the previous year by 12 %.

Figure 29. The real trend in Services and Assistance for the Disabled Act costs as well as GDP between 1994 and 2001



The number of users of services for the disabled has also gone up (Figures 27 and 28). The trend in the number of service users has however varied depending on the type of service and support. In 2001, an estimated 70 % of disability expenditure was spent on services and forms of assistance included in the subjective rights of the severely disabled.

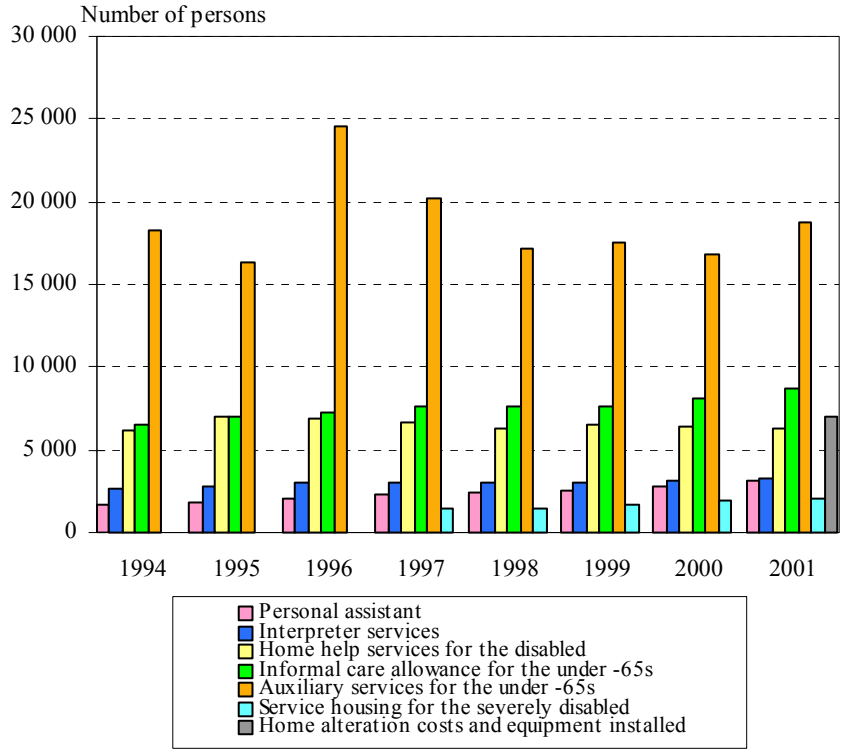
The services and economic forms of assistance based on the Services and Assistance for the Disabled Act are only arranged if the disabled person is not receiving sufficient or appropriate services on the basis of some other act. Key factors contributing to the rise in the number of clients and total costs of services for the disabled include the ageing of the population, increased awareness of the services for the disabled and the fact that more disabled live in their own homes. Technical aids and equipment have evolved and become more versatile, and at the same time more expensive, due to the utilisation of IT, among other things.

The provision and structure of other municipal social, health and transportation services as well as geographical location have indirect effects on the need and costs of services for the disabled. Municipalities can also influence the trend in the number of clients by actions related to service provision.

On the whole, the Services and Assistance for the Disabled Act seems to be working fairly well from the point of view of the disabled. On the other hand, it is evident that there is significant variation in the implementation of the Services and Assistance for the Disabled Act, which causes inequality between persons with disabilities. Especially the availability of other services than those included in the subjective rights of the disabled, i.e. services and forms of assistance tied to budgetary appropriations is a problem, because municipalities have not reserves sufficient funds for their implementation. There is also a clear need for improvement in information concerning services for the disabled.

The rise of disability service costs can be predicted to continue. This is due to priorisation of community care in disability and elderly care policy and the need of development of services for the disabled. In addition to providing services for the disabled, it is important to increase the provision of accessible and obstacle-free living and working environments that reduce the need for special services. About 10 % of the population, or 500,000 people, have permanent mobility impairment or functional disabilities. An obstacle-free living environment is also important to nearly everyone at some point in life. If the majority of service needs to functional disability could be met by the provision of an obstacle-free environment, general services and other solutions serving the entire population, the Services and Assistance for the Disabled Act would fill its original purpose of securing special services for the most severely disabled.

Figure 30. Number of disabled persons receiving home help, informal care allowance and other services for the disabled in 1992 - 2001



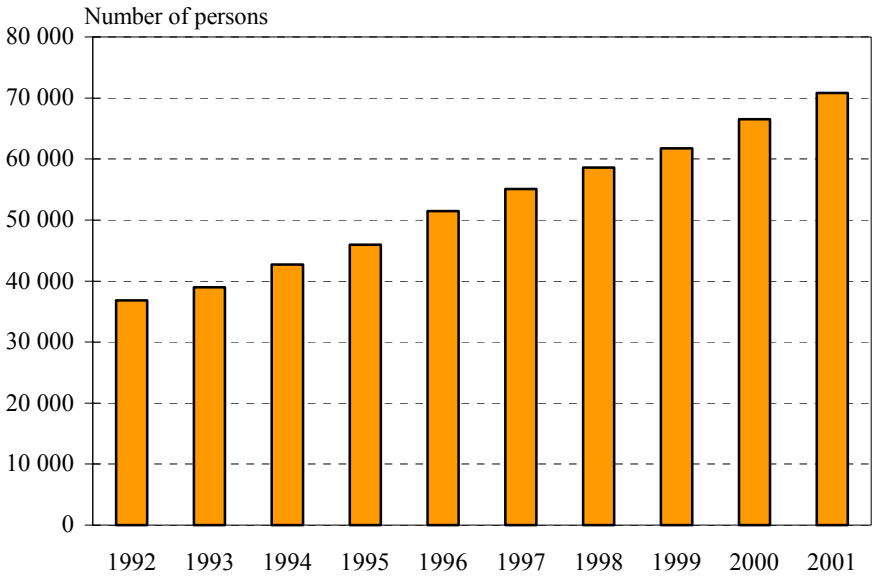
Statistics available on service housing for the severely disabled since 1997 and concerning home alterations since 2001.

Transportation is a basic right citizens are entitled to. In order to guarantee this right for everyone, a provision was included in the Services and Assistance for the Disabled Act obligating municipalities to provide transportation services for the severely disabled. The Services and Assistance for the Disabled Act was enacted at a time when public transportation was rarely suitable for use by people with severe disabilities.

Of all services under the Services and Assistance for the Disabled Act, transportation is by far the most used and the one that has expanded the most (Figure 31). The costs of transportation services make up nearly half of the expenditure on disabled services. The use of transportation services is clearly more frequent in the Helsinki metropolitan area and other large cities than in sparsely populated or rural municipalities.

The rapid rise in the number of clients as well as in costs in accordance with the Services and Assistance for the Disabled Act has prompted authorities to look for new solutions in order to be able to secure the future access to transportation of the elderly and the disabled. A key operating model will be to combine and link transportations and to provide other corresponding arrangements on a permanent basis without lowering the level of services offered to clients. The municipalities are still bound by the provisions of the Services and Assistance for the Disabled Act, which is why even the new ways of providing transportation must comply with current legislation.

Figure 31. Number of persons receiving transportation services in 1992 – 2001



5.2.3 Clear need to extend the scope of the system of personal assistants

The provision of a personal assistant is a form of assistance tied to budgetary appropriation. As a rule, the personal assistant is employed by the disabled person. The system of personal assistants makes it possible to provide comprehensive services on an individual basis. Having a personal assistant may reduce the need for other services, and enable the disabled person to have a job. The system of personal assistant can also be used as a part of or as a complement to other services. In recent years, the number of persons with a personal assistant has risen by about 9 % per year. In 2001, a personal assistant was provided for 3,100 persons with disabilities (Figure 30).

In the programme of the current cabinet, the system of personal assistant is indicated as a key area of development, together with interpreter services. The development of the system of personal assistants has long been a key objective of persons with disabilities and their organisations, but the implementation of the system has been slowed down by disagreements as to funding. In developing the system, key issues to be solved are the right to access to an assistant, the relation of personal assistant to other service forms as well as financing. Assistants' training, stand-in arrangements, wage level and job security are also important issues.

In 2002, a working group appointed by the Ministry of Social Affairs and Health proposed that the system of personal assistants be developed with the aid of a system involving redistribution of costs. According to the proposal, 70 % of the costs of a personal assistant would be reimbursed to the municipality for working hours exceeding 20 hours/week. The redistribution would be supervised by the Social Insurance Institution. The working group considered that the reform would call for additional financing from the central government, which they suggested could be 50 % of the estimated extra costs caused by reforming the system.

5.2.4 Services for the mentally handicapped – structure and legislation

The forms of social support available have a significant impact on the quality of life of persons with mental handicaps and their

families. There are some 30,000 people with mental handicaps in Finland. The proportion of grown-ups with mental handicaps in on the rise, thanks to a rise in the average life span. The number of persons with mental handicaps working in the open job market is still very low, estimated at only a few hundred.

In addition to the Services and Assistance for the Disabled Act, the Act on Special Care of the Mentally Handicapped enacted in 1977 is the law that has special relevance to people with disabilities. There are 17 special care districts in Finland. Municipalities are under obligation by law to belong to a special care district, but they have no obligation to purchase services from them. An estimated 20,000 people use services targeted at the mentally handicapped. 6,000 of them have severe mental handicaps.

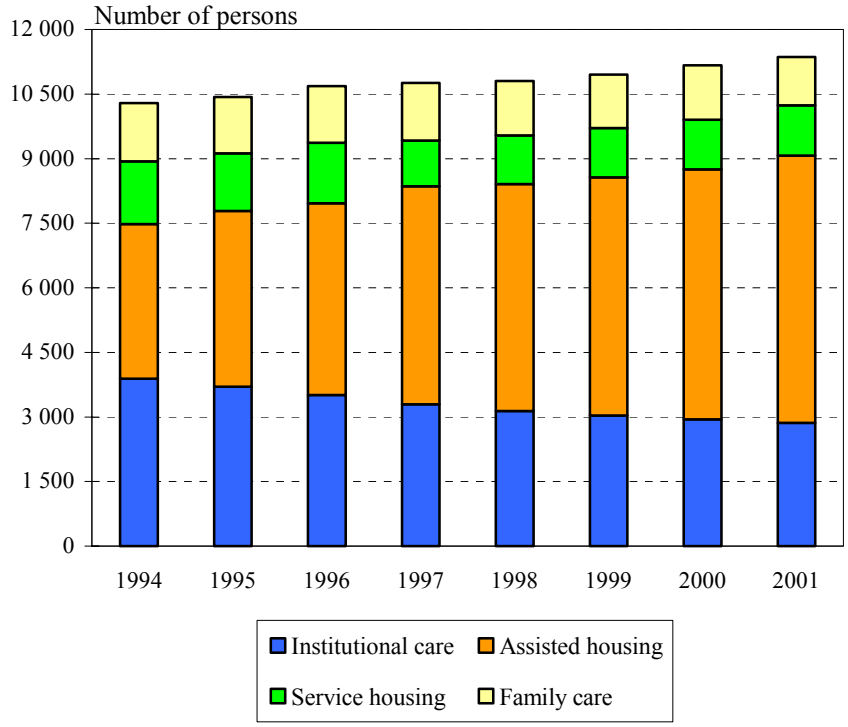
The rapporteurs of the national social welfare development project emphasised the need to reform the structures of the administrative structure of services for the mentally handicapped and division of work within the sector. The rapporteurs suggest a total reform of the Act on Special Care of the Mentally Handicapped and the Services and Assistance for the Disabled Act, which would combine the two. At the same time, the need for harmonisation with the Social Welfare Act and the Mental Health Act could be assessed. Reform of the Act on Special Care of the Mentally Handicapped and the Services and Assistance for the Disabled Act in such a way that the two are conformed is also included in Prime Minister Jäätteenmäki's government programme.

The structure of services for the mentally handicapped has changed significantly over the past ten years. There is a growing trend towards community care, which has expanded more rapidly than the number of people in institutional care has diminished (Figure 32). The basic services for the mentally handicapped are increasingly provided by the municipalities themselves, or purchased from organisations or private care homes. Regional service provision is also on the rise. As a result, the volume of services purchased by municipalities form the special care districts has gone down.

A successful continuation of the change in the structure of services for the handicapped calls for a long-term strategy on the part of municipalities, aimed at providing a sufficient number of high-quality housing and related services as well as ensuring that various temporary care arrangements work when family members look after a mentally handicapped person. More attention should be focused especially on how families with mentally handicapped children are able to cope and on the support measures targeting them. This helps prevent situations where families become totally exhausted, leading to added pressure to place the children in institutional care.

Case management is often suggested as a solution for the problems of families with disabled children. The Ministry of Social Affairs and Health has launched a case management project to be carried out in 2001-2003 aimed at children and young people with long-term illnesses and disabilities as well as their families. The aim is to try out various systems of case management in the municipalities and to fund solutions that can help integrate services and other forms of assistance into functional entities to suit the needs of the families. Case management may be a model that can be applied to improve the position of other groups of people with disabilities as well.

Figure 32. Clients of institutional care, housing services for the mentally handicapped in accordance with the Social Welfare Act and the Act on Special Care of the Mentally Handicapped and family care in 1994 – 2000



5.2.5 Quality recommendations for housing and technical aid services for the disabled

The quality recommendations drawn up for different sectors of social welfare and health care are a new form of information guidance. A decision regarding its implementation was set down in the Target and Action Plan on social and health care for 2000-2003 approved by the Council of State. A recommendation regarding housing and technical aid services for the disabled will be completed in 2003.

Services and support measures related to disabled housing are part of the implementation of basic rights. The quality recommendation on housing services focuses on five key areas, which are the following: taking the need of the disabled into account in municipal planning, accessibility and functionality of the built environment, ensuring a sufficient number of obstacle-free and functional housing, planning general services so that they are accessible to all, and when needed, ensuring the equality of the disabled with the aid of individual services.

The aim of the quality recommendation concerning technical aids is to ensure that residents in different municipalities have equal access to good technical aids and related services when needed, regardless of where they live. The key elements of high-quality technical aid services are effective informing on municipal level and in hospital districts, and the fact that the services are based on the needs of clients, implemented in a professional manner, besides being effective and seamless. In addition, follow-up and evaluation of the services is emphasised.

5.2.6 Securing funding for disabled services

The funding of disabled services affects their equal availability. Key issues in funding of disabled services are the division of funding responsibility between the central government and municipalities, and whether resources are sufficient, especially in small municipalities. The client fees and deductibles of users of different services must also be looked at. An efficient use of resources and the availability of services can be promoted by providing special services for the disabled with a sufficiently large population basis, when needed as a regionally coordinated joint effort.

For targeting forms of assistance of disability policy more clearly and equally, the provision of services and direct cash benefits is usually most useful. One alternative is to remove the disability deductions in taxation either entirely or partly, and to redirect the resources to the development of cash benefits and services for the disabled, particularly the system of personal assistants, interpreter services and maybe some services provided with service vouchers.

5.3 Old age

	2000	2001	2002*	2003*
Expenditure on main category (€ million)	10 233	11 023	11 700	12 400
- of which, old-age pensions (€ million)	8 758	9 409	10 000	10 600
- % of social protection expenditure	30.9	31.7	31.8	32.3
% of GDP	7.8	8.1	8.4	8.6
Old-age pension recipients on 31 Dec	869 700	875 600	892 300	909 300
Residents in old people's home on 31 Dec	20 700	20 600	20 000	19 500
Elderly households receiving home help service during the year	83 000	84 200	85 000	86 000
Auxiliary service recipients over 65 during the year	104 700	123 500	126 000	128 000
Recipients of informal care allowance for the over-65s during the year	13 300	15 900	16 500	17 000

*estimate

Expenditure on old age has for years formed the biggest single category in all social protection expenditure. An estimated € 12,400 million will be spent on this main category in 2003, which accounts for 32.3 % of all social protection expenditure and 8.6 % of GDP. Pensions and other income transfers account for 90 % and social services for the remaining 10 % of expenditure on old age category.

Expenditure on old age is increasing year by year. The rise in pension costs is due to the increase in the number of old-age pension recipients and a higher level of pensions. Due to a rise in life expectancy, the average time on pension in relation to years spent at work is also increasing. The crucial factors for expenditure on services are the old people's health and functional capacity as well as the range and costs of public services supply. Most of the expenditure on social and health care services aimed at elderly people is spent on care and services for the oldest people during their last years of life. The number of persons under 75 receiving public services for the elderly has fallen.

Because of migration and differences in the birth rate there are great differences in age structure between regions. The proportion of the population made up of those aged 65 or more varies between 5 and 30 %. Migration to the south that has been going on for years and a low birth rate can be seen in the age structure of eastern Finland in particular. Many municipalities are already displaying the kind of age structure that is estimated for the entire country in 2030. Municipalities suffering from net migration loss can direct funds no longer needed for services aimed at children and young people to elderly care services. The problem is however that a population structure dominated by pensioners may lead to a drop in tax revenue at the same time as the need for social and health care services for older people increases. There is a danger that inequality with regard to access to service will increase between old people living in different parts of the country.

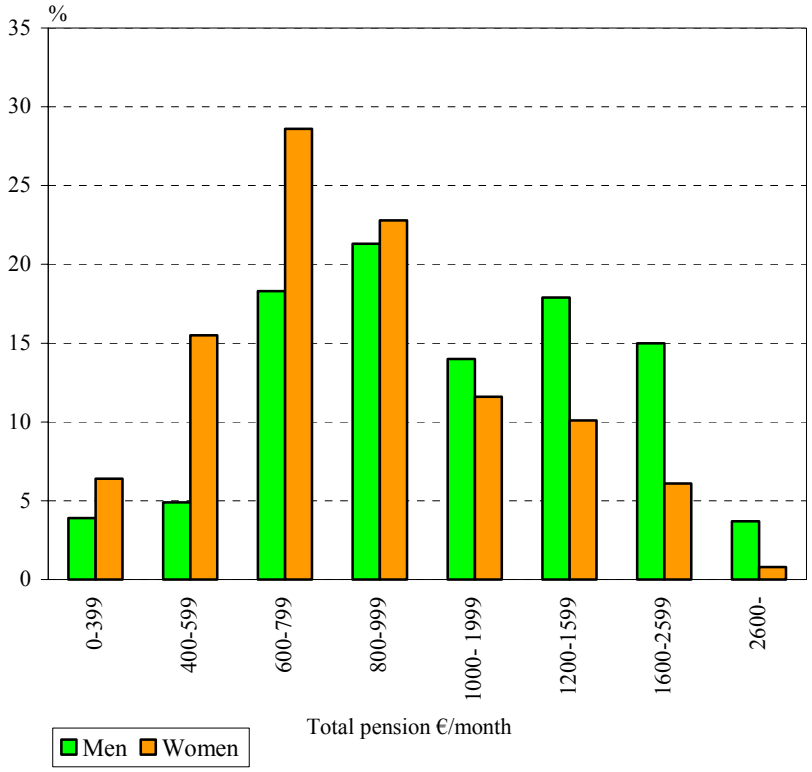
5.3.1 Trends in old-age pensions

The number of old-age pensions recipients exceeds 900,000. In 2003, some 53,000 people turn 65 in Finland. The majority, 83 %, are full-time pensioners before reaching the general old-age pension age. A year ago the corresponding figure was 85 %. Those reaching the old-age pension age limit in 2003 are among the first who have

had the possibility to contribute to their old-age pension throughout their work careers.

A comprehensive and reasonable pension security is the basis for independent coping of the elderly. The trend in current pension levels for old-age pensions follows the national pension index and the employment pension (TEL) index. The average level of old-age pensions is rising all the time, because the employment pensions of people now reaching retirement age are higher than the ones granted earlier. At present, the level of new old-age pensions is on average about half of the income earned at work. At the end of 2001, the average total pension of old-age pensioners was € 1,019 per month, € 1,215 for men and € 891 for women. 57 % of all old-age pension recipients are women. There are considerable differences in the distribution of pensions between women and men. 73 % of women and 48 % of men received a total pension under € 1,000 per month (Figure 33).

Figure 33. Distribution of total pension of old-age pension recipients 31 December 2001

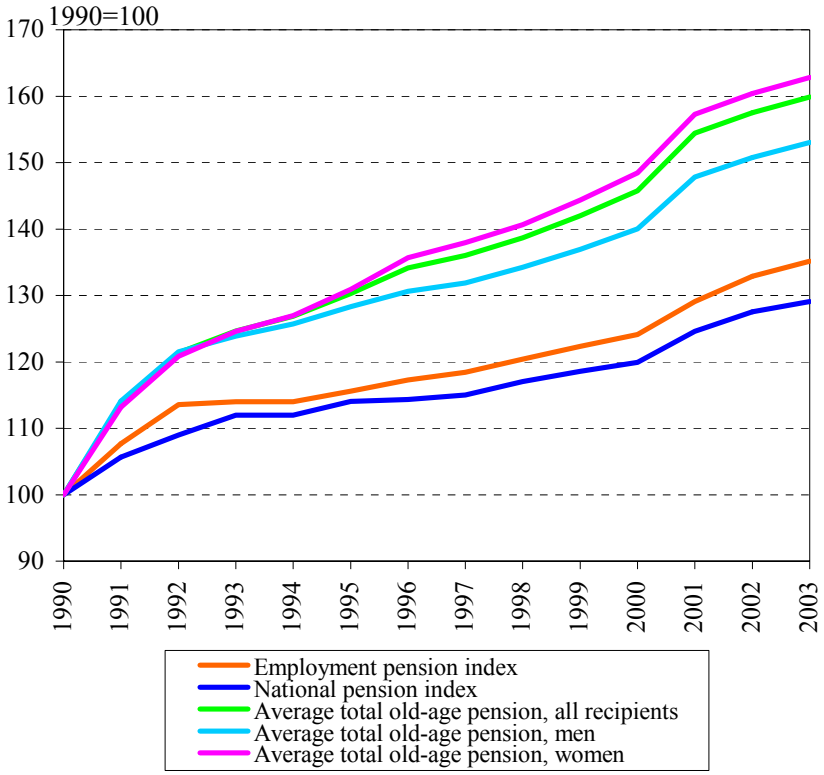


Source: Central Pension Security Institute

The changes related to the 1996 pensions reform slowed down the rate of increase in pension levels (Figure 34). The changes brought about by the reform included making the national pension fully deductible, gradual reduction of the basic amount of the national pension, by the beginning of 2001, and introducing a separate TEL index for the over-65s. Tax relief for pensioners has partly compensated the cuts made in pensions. At the beginning of 2003 the increased health insurance payment based on pensions was discontinued. National pensions will increase by 1.2 % and employment pensions of old-age recipients by 1.7 % in 2003.

Prior to 1996, the basic amount of the national pension could reduce the amount of employment pension, regardless of its level. As of October 2003, the withdrawal of the basic amount of the national pension will be compensated for by a separate raise aimed at those employment pension recipients who are eligible. The adjustment targets some of the persons who have taken up employment pensions between 1 July 1975 and 31 December 1995. About one in ten of the 1,2 million employment pension recipients will receive the raise. The amount of the raise varies between € 5-50/month, depending on the level of employment pension. The amount of national pension or pensioners' housing allowance is not reduced because of the rise. Changes to employment pension security that come into force at the beginning of 2005 are described in Chapter 4.3.2.

Figure 34. Trends in old-age pensions 1990-2003



5.3.2 Drafting of elderly policy strategies speeded up by quality recommendation

The ageing of the population emphasises the need for national and regional strategies targeting problems in the living conditions of the elderly and services aimed at them, as well as the importance of responding to the challenges posed by an ageing population. The strategies must be based on the needs of the population and the public and private resources that are available. It is important to monitor and evaluate the implementation of the strategies in a systematic manner. It is also important to make the structures and responsibility for service provision clear-cut and efficient within the next ten years, because after 2010, the number of pension recipients will start to grow at an increasing rate.

Good elderly policy strategies include the service structure as a whole as well as looking at the relations between its parts, preventive measures, supporting living at home, rehabilitation and 24-hour care. Responding to the individual needs and expectations of the elderly calls for changes in the structures, contents and production forms of services and support measures. The strategies must also take into account social assistance, client fee policy and the need for their development. The strategies include measures implemented by various sectors of social policy and municipal administration.

The immediate housing and living environment as well as services make up an important whole as far as the functional capacity of the elderly is concerned. It is important to take into account the decreasing physical and cognitive capacity brought about by increasing age in social welfare policy, municipal planning and commodity production, so that operation is overall economically viable, problems and unnecessary costs can be avoided, and the preconditions for a good quality of life and independent coping of elderly citizens can be secured. The need for more intensive service forms is postponed and the workload of families as well as social and health care staff is lessened when living environments are designed so that they are functional and easily accessible to people of all ages.

In April 2001, the Ministry of Social Affairs and Health and the Association of Finnish Local and Regional Authorities issued a quality recommendation concerning care and services for older people. The recommendation is intended as a guide towards a strategic approach in the development of the living conditions and services aimed at elderly people. The aim of the recommendation is to ensure that the service structure meets the needs of the elderly in municipalities, and to make sure that municipalities allocate sufficient resources to reach the service-related objectives. According to the recommendation, each municipality should have–policy strategy concerning care for older people as part of the municipal plan.

The quality recommendation concerning care and services for older people is complemented by a recommendation given at the end of 2002 concerning the drafting of service and care plans for older clients. All older people in need of help should have an individual care and service plan, which would secure access to help and services in accordance with their functional capacity and need for help. The service and care plans are also tools for the staff, management and the municipality in strategic planning.

At the end of 2002, about half of Finnish municipalities had a policy strategy concerning care for older people, and one third were preparing one. About one in five municipalities reported that they did not have a strategy, but were planning to prepare one. Municipalities with a large number of inhabitants had drawn up strategies more often than small ones. 70 % of the strategies completed had been ratified by the municipal council, and one fifth by the municipal executive board or the social and health care board. Most of the strategies are for the period until 2010.

In the coming years, it is important to monitor the effects of the quality recommendations on the budgets of municipal care services for older people, the contents and quality of services, number of staff and the status of various population groups. Based on preliminary information, it can be estimated that there is more interest towards the quality of care and services for older people and client-based operation. The majority of municipalities have introduced indicators that are used to assess the physical, mental

and social capacity and need of help of older people on an individual basis. New preventive and rehabilitative work forms have also been introduced. An increasing number of operating units have plans concerning quality assurance. The challenge is to make quality and a client-based approach a concrete part of everyday service and care, and to evaluate the quality of operation on a regular basis.

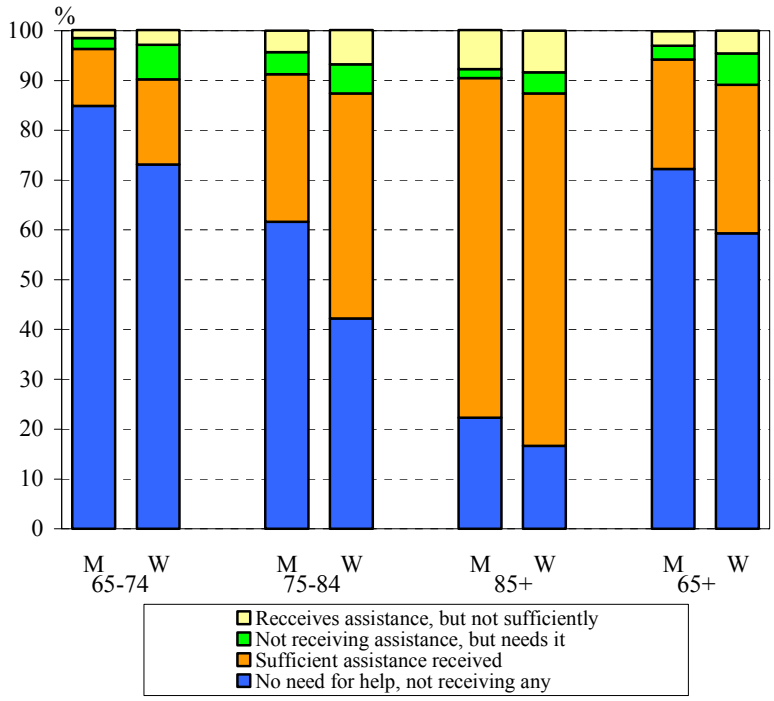
5.3.3 Prevention and rehabilitation

As the average life span increases, the health of elderly people, especially that of the oldest age groups, is increasingly important for the development of service needs. The programme entitled Health 2015 approved by the Council of State stated that the aim is for the improvement of the functional capacity of the over-75s to continue along the same lines as in the past 20 years. At present, deterioration of functional capacity is often speeded up after the age of 75, and especially after turning 80.

An 80-year-old woman may expect to live for about 8 years, and a man of the same age for 7 years. The life expectancy of the over-80s is expected to rise the most in the future, which increases their proportion of pension-age people.

According to the Health 2000 Study carried out by the National Public Health institute, 38 % of men and 58 % of women aged 75-84 considered that they needed assistance. Among the over-85s, four out of five felt that they needed assistance. The majority considered that they received adequate assistance, but in the older age groups one in ten felt that they needed the kind of assistance that was now either insufficient or not available at all (Figure 35). Even though the situation seems relatively good based on the results, the increasing need for help must be met as the proportion of persons belonging to the oldest age groups increases.

Figure 35. Need for help and assistance received by age groups and gender, %



Source: National Public Health Institute

Research and development is faced with the challenge of examining the processes that lead to diminished health and functional capacity, and developing efficient and cost-effective models for their prevention and rehabilitation. The resources allocated for prevention and rehabilitation and their success rate have an impact on the costs caused by the ageing of the population in the long term.

The differences in health between population groups also apply to the oldest age groups, which means that the challenge to diminish health disparity also concerns the elderly. When preventive actions, counselling and rehabilitation are being developed, it is important to take into account the differing preconditions for independent coping and ability to assume responsibility for the maintenance of one's own health and functional capacity of different groups among the elderly.

In the 2002 report issued by the Council of State, rehabilitation of elderly persons was mentioned as one of the priorities of rehabilitation development. The evaluation of rehabilitation need and the provision of rehabilitation for the elderly is primarily the responsibility of municipalities. The rehabilitation provided by municipalities is complemented by rehabilitation aimed at war invalids and veterans. According to the rehabilitation report, care and services for older people should be based on cooperation and a rehabilitative approach on the part of all actors, both in home-help services and in institutional care. New operating models and forms of cooperation can be established jointly by municipal social and health care sections, NGOs and other service providers. Existing institutional capacity can be utilised to meet the service needs of the elderly, but it cannot guide the content of rehabilitation, where the emphasis is on rehabilitation in a community setting as well as new types of preventive work forms, such as rehabilitation counselling clinics and rehabilitation available at day-care centres for the elderly.

The report on rehabilitation focuses special attention on the promotion of the functional capacity of the elderly by sufficiently intensive forms of exercise. In the decision in principle made by the Council of State in spring 2002, it was decided with regard to development strategies of health-promoting exercise that during 2003, quality criteria are drawn up for guided health-promoting exercise aimed at the elderly, and during 2004, a national programme is launched to increase strength-training among the elderly living at home. The committee for health-promoting exercise is currently working on a plan for the implementation of measures. The aim is to finance the implementation with project funding from the Ministry of Social Affairs and Health, the Ministry of Education and the Slot Machine Association.

According to current knowledge, accurate targeting, timing and good organisation that is based on efficient networking is crucial as far as the impact of geriatric rehabilitation is concerned. Elderly persons with an increased risk of long-term institutional care are often able to cope at home longer with the help of efficient rehabilitation. Rehabilitation aimed at elderly persons calls for programmes that are tailored to suit individual needs.

The results of many current development and experimental projects in elderly rehabilitation will be available in 2004-2006. Sufficient resources should be allocated to evaluation of the results of the experiments. The aim is that as a result of the experiments, operating models are set up that have been shown to be rational and having an impact, and that can be implemented jointly by municipalities and other actors.

5.3.4 A decreasing proportion of older people use public social services

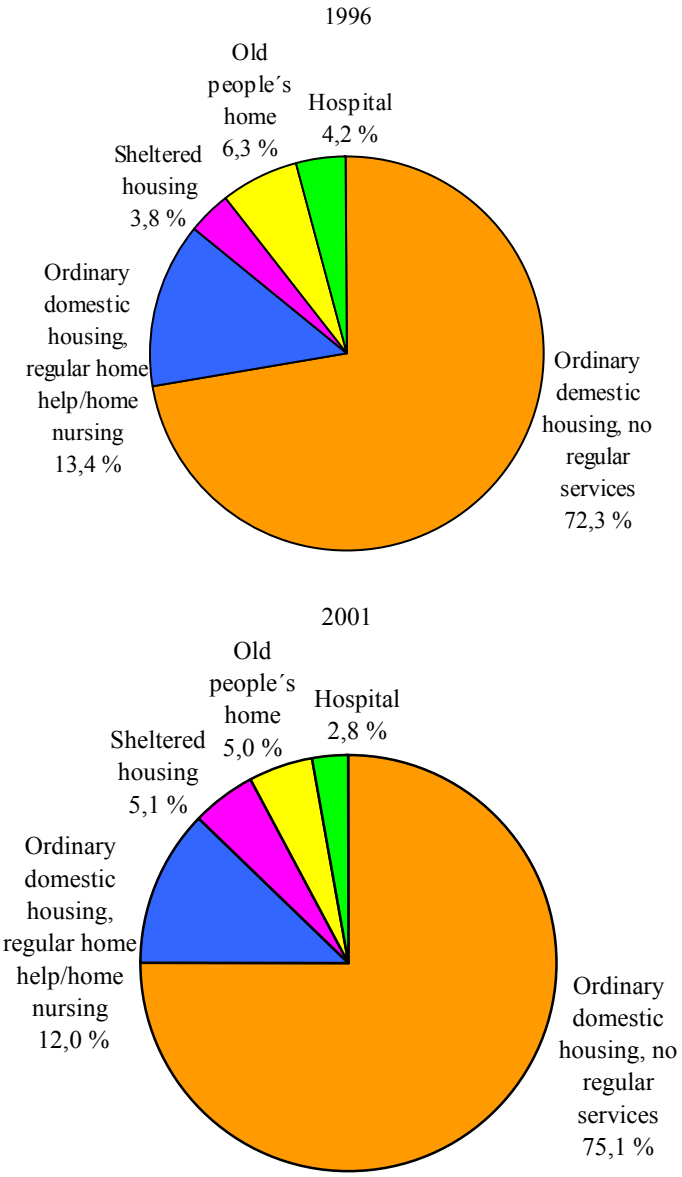
The number of elderly persons receiving home help services or institutional care decreased significantly in the 1990s (Figure 36). The majority of those over 75 do not receive any public services for the elderly. The proportion of those over 75 receiving regular home help services is under 50 % of the number of people who need regular help, which according to studies in 25-30 % of this age group. Some of the elderly do of course receive the help they need from family members, and increasingly also by relying on private service provision.

The number of elderly persons in institutional care continues to decline. Those who are cared for in institutions are older and more infirm than before. Illnesses leading to dementia are clearly the most important reason behind long-term institutional care or other service forms requiring 24-hour supervision. The quantitative goal of service structure change set in the early 1990s has been met in long-term institutional elderly care in the entire country, whereas another objective, that of increasing and creating services and living environments that support living at home, has not been met in a satisfactory manner.

The decrease in the amount of institutional care is primarily due to expansion of sheltered housing. The range of sheltered housing covers everything from relatively small-scale services produced with a considerably smaller staff than in institutional care, to intensive care with 24-hour supervision. It is significant that almost one third of the input of work of staff within home help services is estimated to target people living in sheltered housing. In future, there is a need to find an appropriate role and target group for sheltered housing supported by public funding within the service system as a whole.

The most important approach to curbing costs in care and services for older people in the public sector has been to cut down on traditional institutional care, make do with a smaller number of staff, and increase the provision of sheltered housing which requires less staff and is less expensive. Another way of attempting to target services with greater precision has been the retargeting of services to ”those in greatest need of services”. The result of this strategy has been a significant reduction in the extent of home help. The strategy is based on the assumption that those in need of less help can take care of themselves with the aid of relatives or by utilising private services.

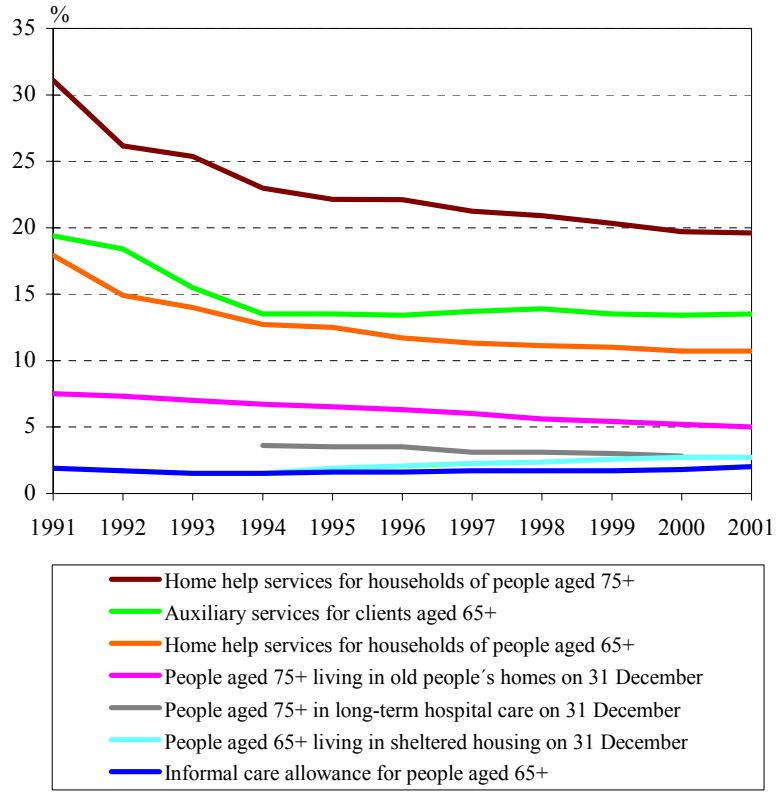
Figure 36. People aged 75+ and their housing type in 1996 and 2001



* The division of those living in ordinary housing into regular service users and other is based on the 1996 and 2001 home care survey (30 November).

Unless more resources are allocated to the development of home help, the gap between service needs and provision threatens to widen, because the proportion of people 75 or older will increase rapidly in the coming few years. The risk with this kind of rigid priorisation or assessment of need is that the preventive and rehabilitating role of services in maintaining functional capacity may be reduced even further.

Figure 37. Percentage of recipients of the main forms of care and services for older people as a proportion of the corresponding age group in Finland, 1991 – 2001



5.3.5 Towards a care guarantee

The Act on the Position of Clients of Social Welfare Services requires that the provision of social welfare services is based on a decision, and that when social welfare measures are implemented, a care and service plan is drawn up for the client. However, it is not clearly defined in legislation when an elderly person is entitled to services or assessment of service need.

The rapporteurs of the national Social Welfare Development Project propose that provisions be added to current legislation on the right of elderly persons to have their need of care assessed within three days after contact has been made concerning need of care and on their right to a service plan. This would apply to all people over 80 living at home who state a need, and the right would be established as the elderly get in touch with municipal authorities. This special right to services to people over 80 would not abolish the eligibility to services of persons under 80 in the present manner. The municipality could also be notified by the Social Insurance Institution of an elderly person in need of service, by informing the municipal authorities when an elderly person is granted pensioners' care allowance. The rapporteurs suggest that the persons receiving the highest amount of pensioners' care allowance (special care allowance) be eligible to assessment of need of care and service plan regardless of age.

The rapporteurs feel that national guidelines that guarantee uniform practices in the entire country are needed concerning the methods used in service need assessment. Efficient operation calls for the development and implementation of easy-to-use indicators that assess the need of

services from various angles. Assessment of need may lead to the preparation of a care and service plan. In the proposed procedure, the municipality would take upon itself to provide only those services it has indicated in the service plans as belonging to it. It would be the municipality's responsibility to guide and counsel clients to look for other services elsewhere, e.g. relatives, NGOs or private service providers, at their own cost. In practice, the model proposed by the rapporteurs would mean that the clients would not be given a subjective right to service on the basis of assessment of need of service. However, the client's right to have their needs assessed in an equal and appropriate manner would be significantly improved.

5.3.6 The main trend is to support living at home

Supporting living at home of the elderly is the primary objective of elderly care, according to the programme of the government. The service system must be reformed from this perspective. The proportion of community care can be further increased in many municipalities, but this calls for taking care of the conditions affecting improved functional capacity and independent coping of the elderly, sufficient and versatile provision of social welfare and health care services, the creation of obstacle-free housing and living environments, and the accessibility of common private and public services. The government programme is based on the assumption that the government grants towards municipal social and health care expenditure must also be raised in order to maintain and improve the quality of services aimed at the elderly, and to increase the number of trained staff in institutional elderly care and home help services.

A key challenge in the development of services for the elderly is developing various home-help services that support living at home. The need for help among elderly persons often initially involves instrumental operations such as cleaning, management of financial affairs, cooking and moving outside one's home. A good service system reacts to these services as well, in addition to providing assistance with basic personal functions. It is very important to be able to increase the provision of home help service and home nursing in a flexible manner, so that the sense of security of old people living at home and their relatives can be maintained, and most of all, so that all too early a transfer to sheltered housing or an institution can be avoided. Losing the familiar living environment often weakens the mental resources of an elderly person, leading to depression.

Providing services at home, in familiar surroundings, is often the most humane, and at the same time also the most cost-effective approach, with which the greatest effects on well-being can be achieved using the resources available. By supporting living at home also ensures that the remaining resources of the old people themselves are best made use of, and that the participation of family members and others is maintained in caring for older people.

The methods of assessing functional capacity need to be complemented and developed further. This will yield more versatile information on where measures should be focused when aiming to maintain and promote the health and functional capacity of elderly people.

The introduction of service vouchers is one possibility of increasing and complementing home help services provided by the municipality. The introduction of service vouchers in

municipal home help services is currently being prepared in the Ministry of Social Affairs and Health based on the rapporteurs' proposals.

The role of new technology is to increase the safety and possibilities for independent coping of those living at home or in home-like conditions. At its best, technology can complement the help, security and presence of relatives and others providing assistance and services. Monitoring long-term illnesses can be carried out in a more independent manner, and the working methods of nursing and care staff can be developed without compromising client and patient safety.

5.3.7 Family care as part of community care

Supporting family care is well motivated, taking into account the continuing rise of the number of old people and the need for alternative care solutions. Improving the status of family caregivers is also included in the strategic lines concerning elderly care in the government programme. The government will investigate how family care can be developed through means of legislation and as part of the service system as a whole.

There are an estimated 133,000 people over the age of 60 in Finland who live at home and are in need of help from others. Even in Finland, it is often the spouse, children or other relatives who bear the main responsibility for providing the help needed by many elderly persons. Many people who are still at work also participate in caring for and looking after their infirm parents, even though they have no legal obligation to do so. In future, dementia will be one of the biggest challenges facing elderly care.

Municipalities can at their own discretion grant family caregivers informal care support, in the form of care allowance and or/services. The informal care allowance system for family caregivers was introduced in 1993. The number of informal care allowance recipients has grown steadily, but only a small number of family caregivers are covered. In 2001, a total of 24,600 persons were cared for with the aid of informal care allowance. Two out of three of them (15,900) were over 65 years of age (Figure 38). A little under 2 % of persons over 65 have been covered by the system.

Women act as family caregivers more often than men, but the number of men taking care of elderly relatives is also on the rise. At the end of 2001, 69 % of informal care allowance recipients were women. Many of the family caregivers are themselves elderly; 34 % of them are 65 or older.

In 2003, the minimum informal care allowance to family caregivers is € 224.20 per month, unless the commitment required or need of care is marginal. There is a lot of variation between municipalities in the size of allowances granted. In 2002, the average informal care allowance was € 288 per moth, which was somewhat less than in 1998. In 2000, a total of € 65 million was used for informal care allowance paid to caregivers, an estimated € 42 million of which was paid to family caregivers looking after elderly relatives.

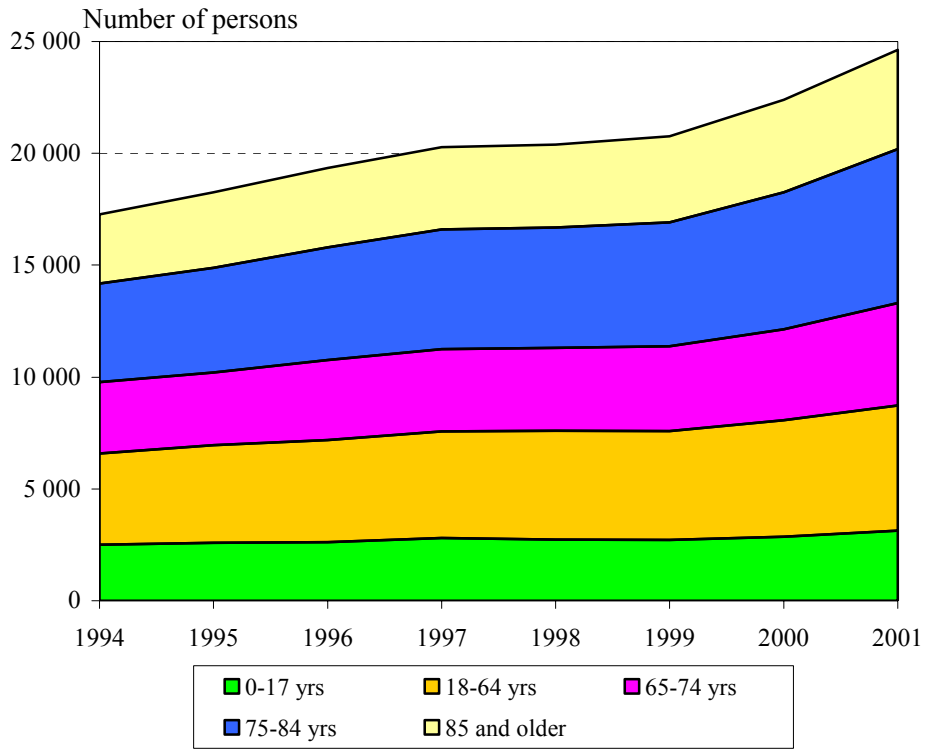
According to a survey carried out in 2002, the majority of persons cared for with the aid of informal care allowance (about 11,000 people in 2002) would need institutional care in the absence of a family caregiver. The calculated gross savings in institutional care expenditure thanks to family care were € 379 million, when the cost of a care day at an institution was set at € 91.50. When the costs of informal care allowance were subtracted, the estimated net savings totalled an estimated € 238 million.

As of 2002, the number of statutory days off of informal care allowance recipients engaged in regular care was increased form one to two days per month. At the same time, the number of people entitled to statutory days off in accordance with the informal care system increased, and family caregivers were covered by statutory accident insurance.

The development of informal care allowance to family caregivers will continue to pose one of the greatest development challenges within care of the elderly and the disabled in the years to come. Issues that need looking at include eligibility criteria, quality and support measures and services included in informal care. The support can be in the form of economic assistance (e.g. care compensation, transportation compensation), services supporting care (e.g. auxiliary services), material help supporting other types of care (e.g. special equipment in the home, technical aids that facilitate care) and promoting the coping of the caregiver (e.g. days off, stand-in caregivers, counselling, guidance, rehabilitation). Other things that require consideration include the nature of the family caregiver relationship between the municipality and the caregiver, with regard to the clarity of the caregiver's status, and the client fee policy related to family support.

One alternative is to enact a separate law on informal care allowance or family care. This would ensure a more secure status for family care within the service system and legislation. Another issue that could perhaps be set down in legislation is the entitlement to time off from work while caring for a relative. The rapporteurs of the Social Welfare Development Project proposed that legislation be prepared as tripartite cooperation, in which employees would be given the right to take time off from work for a short period to make care arrangements for a parent in an unforeseen situation, work shorter hours for a longer period of time when participating in the care of a parent, and to take time off from work for a fixed period during terminal care of a parent. This way, working life would show more flexibility towards those who assume responsibility for the care of their elderly parents, and the demand for public services could be diminished and postponed.

Figure 38. Persons cared for with informal care allowance, 1994 – 2001



5.3.8 A need to increase the number and education of staff within elderly care

One of the key areas of elderly care is correcting the shortage of staff. The number of professional staff working in elderly care is clearly too low, both in community care and in institutional care. The number of elderly care workers in relation to those 75 or older decreased in the 1990s. A certain minimum level of staff is usually a prerequisite for high-quality operation and quality development.

In accordance with the government programme, the government grants to municipal social welfare and health care costs must be raised in order to increase the number of staff in institutional elderly care and home help services. According to the government programme, the goal in increasing the number of staff in elderly care is the level defined in the quality recommendation on care and services for older people.

The number of staff in municipal home help services has diminished somewhat in recent years. The number of homecare workers and housing support assistants employed by municipalities shrank by 5 % from 1999 to 2001, when their total number came to 13,800. This trend may partly be explained by the growing popularity of purchased services in home help services. The proportion of fixed-term employees and stand-ins has remained at 17-18 %. The number of new home help staff taken on who had not worked in this field for the past four years was 1,150 – 1,040 per year. 55 - 67 % of them were employed on a fixed-term basis.

According to the rapporteurs of the Social Welfare Development Project, reaching the average for the year 2000 in staffing of all units of institutional elderly care would

require taking on 3,000 new employees, the costs of which would amount to € 78 million. In home help service, attaining the corresponding level of staffing would require 3,600 new employees and € 95 million. According to preliminary estimates, municipalities have increased the number of elderly care staff in 2000-2002, but there is still an estimated shortage of some 4,500 employees. The rapporteurs suggest that an attempt should be made to correct the shortages in the number of elderly care staff by the end of the year 2007.

The quality of elderly care services can also be improved by new working methods and an approach that respects the individuality and autonomy of the elderly. Regarding the work of the staff, the level of demand has increased both in home help services and institutional care. In addition to an insufficient number of staff, the problem is that there are a number of employees working within elderly care with no education in social welfare and health care. The possibilities of the staff to participate in continuing education have also deteriorated during the past ten years, when participation in continuing education has no longer been statutory. The rapporteurs of the Social Welfare Development Project proposed that the continuing education and work guidance in social welfare be made statutory.

5.3.9 The benefit and client fee system of long-term care

The strategic lines concerning social welfare and health care services set down in the government programme include reforming the client fee policy of social welfare and health care. The goal is that fees do no prevent seeking care, especially among those with meagre income and poor health. This is why the possibility of introducing a system of uniform personal annual limit will be studied. In addition, the guidance impact of community care and institutional care fees, services use and choice of place of care will continue to be assessed. The client fee regulations will be reformed so that a sufficient level of disposable income after client fees and housing costs is ensured to those using a lot of community care services. The problems related to home help and institutional care services, fees and social insurance benefits are illustrated in Table 6.

There are at present significant differences with regard to social protection and responsibility for various living expenses between community care and long-term institutional care. Drawing the line between community care and institutional care has significance for the clients using the services, the municipalities providing them as well as The Social Insurance Institution (SII) that grants social insurance benefits. The number of and eligibility for other SII-benefits is affected by whether the person is cared for in the community or at an institution.

In the case of persons in institutional care, the amount exceeding a certain limit of national pension is reduced, and pension recipients' care allowance, sickness insurance benefits and housing allowance are only paid to persons in community care. Institutional care is comprehensive care, and the fees of long-term institutional care cover all costs of care and treatment, medicines, as well as other maintenance and housing costs. A certain amount of disposable income for personal use is also secured for the person in institutional care.

Persons or families living at home or in service housing pay for their own living costs and the costs of care and looking after family members. With the exception of long-term home nursing and home help services, the municipality charges a monthly fee adjusted according to the

household's income and amount of services, with a monthly upper limit based on the size of the family. Municipalities provide an increasing number of services as separate auxiliary services for which a fee can be charged freely, however so that the upper limit of the size of the client fee is the same as the cost of providing the service. Auxiliary service fees are usually flat fees, which are the same to all service users. In community care, there is no provision regarding a certain amount of disposable income to households after client fees and other necessary expenses. The client fee policy of sheltered housing for the elderly is particularly free for the municipalities, since there are no separate regulations governing sheltered housing fees.

The different practices applied in community care and institutional care make it possible to transfer costs from one financing party to another. This may lead to inappropriate targeting of municipal resources and services, and make it difficult to provide services in a client-centred and flexible manner. In some instances it is the division of financing responsibility and income transfers, not need of care, that defines the contents of services and place of care of an individual. One ensuing consequence related to this is the eagerness of municipalities to rename old people's homes (= institutions) sheltered housing (= community care) in order for the residents to be eligible for better SII benefits. In such cases, the municipality can charge a significant share of the benefits paid out by the SII. as client fees and rents, and a higher proportion of the service costs must be borne by the client.

The current client fee system may lead to distorted choices and costs awareness on the part of households. Clients and their families compare the costs of community care and institutional care. The fees charged from persons using a lot of long-term community care services may become unreasonably high, if other normal, necessary costs are also taken into account. In practice, persons in long-term institutional care may have more disposable income than a person in community care and his or her household after paying necessary household costs. This imbalance between client fees may for its part encourage people to seek institutional care, even though it is the municipality that has the decisive role in making decisions on institutional care. The municipality may lower fees with a separate administrative decision, but this procedure involves increased bureaucracy and does not guarantee the equal treatment of clients. In a worst-case scenario, the costs of necessary services may lead to need to resort to social assistance.

The differences in income transfer and client fee systems between community care and institutional care are also an obstacle to the transparency of the social protection system and make it more difficult to compare costs. As services become increasingly versatile, the difference between community and institutional care has become more and more blurred. Having to define whether community care or institutional care is being applied leads to more bureaucracy. These problems would diminish if the boundary between long-term community care and institutional care were to be lowered, so that the income transfers and client fees of those using the different forms of services were as much as possible defined according to the same principles.

At the end of 2001 there were about 35,000 persons in long-term institutional care, 30,000 of whom were over 65 years of age. According to a client survey carried out on 30 November 2001, 69,900 clients used regular home help services.

Abolishing limitations regarding institutional care included in income transfers would increase central government expenditure. In order to avoid significant extra costs to the central government, the changes would have to be taken into account in transfers between the central government and municipalities, such as government grants. The cost of full national pension and pensioners' care allowance to institutional care is estimated to come to some € 100 million. The costs of housing support to institutional care would be considerably less, especially if certain criteria were set for the quality of housing covered. Paying out pensioners' housing support to institutional care would not only lower the boundary between community care and institutional care, but would also improve the possibilities of creating a more uniform client fee system in community care and institutional care.

The above changes to social insurance benefits would not abolish wholly the differentiation between community care and institutional care in social protection. Sickness insurance benefits and some disability benefits would continue to be paid out exclusively in a community care setting.

In 2000, the revenue from client fees from elderly and disabled home help services and other social welfare service in community care totalled € 138 million (12 % of total expenditure). The reform of client fees in long-term community care e.g. by introducing a minimum level of disposable income and by including the auxiliary services needed by the client in the income-fixed home help fee would reduce the municipalities' revenue form client fees. On the other hand, the increase in the income level of pensioners increases automatically the income revenue from income-fixed client fees.

In the future, the strategic guidelines concerning financing of elderly care service will be defined in an operating environment characterised by a variety of pressures and challenges, in addition to an ageing population and increasing need of services. These include securing the social basic rights, internationalisation as well as new ways of financing and providing services, e.g. private service and service vouchers. When the guidelines are drawn, evaluations are needed from the point of view of different population groups with respect to the cost, guidance and targeting effects of the possible changes.

Table 6. Problems related to services, client fees and social insurance benefits in community care in institutional care; alternative solutions

Form of care	Problems	Alternative solutions
Services provided in the home	- Municipalities' incentive to collect many different fees - Growth of sickness insurance deductibles - Fees and deductibles heaped on clients - Insufficient economic incentives for clients to seek community care - Income traps linked to income-fixed fees and benefits - Unmotivated differences in fees between municipalities - Differences in benefit and fee systems between community care and institutional care - Unclear eligibility for services and assessment of service need - Insufficient services	- Increased control of fees on a national basis - Developing annual personal limits for fees and deductibles (possible combining of the two) - Defining minimum disposable income in community care - More uniform grounds for fees and benefits in community care and institutional care - Further development of pensioners' care allowance (criteria, grading, amount, financing) - Statutory right to assessment of care need or to services with certain criteria - Introduction of service vouchers
Informal family care	- Poor coverage of informal family care - Fees collected from informal care allowance, especially when the caregiver is the spouse - Coping of the family caregivers - Low level of allowance, insufficient auxiliary services, insufficient number of days off, inadequate provision of substitute care	- Reviewing criteria for eligibility for family care - Separate criteria for fees concerning informal care allowance - Extended eligibility for days off - Eligibility for time off from work for family caregivers
Sheltered housing	- See services provided in the home - The concept f sheltered housing is poorly defined - Difficult to draw the line between sheltered housing and institutional care	- See services provided in the home - Make the relationship clearer between Social Welfare Act, the Services and Assistance for the Disabled Act and the Act on Special Care of the Mentally Handicapped
Family care homes	- Institutional care fee, but benefits as in community care	- Making fees and benefits more uniform
Institutional care	- Institutional care fees are rigid, not dependent on quality of care - Low level (€ 80/month) of minimum disposable income - Differences between benefit and client fee systems in community care and institutional care	- More uniform benefits and grounds of fees in community care and institutional care - Raising the level or terracing of minimum disposable income in institutional care
Service voucher	- Defining the value of the voucher - Securing availability and quality of services	- Minimum value of service voucher defined in relation to income in the case of regular home help services - Authorisation of service providers

5.4 Social protection for widows and other survivors

	2000	2001	2002*	2003*
Expenditure on main category (€ million)	1 276	1 340	1 390	1 390
- of which, survivors' pensions	1 236	1 300	1 340	1 350
% of social protection expenditure	3.9	3.9	3.8	3.6
% of GDP	1.0	1.0	1.0	1.0
Recipients of survivors' pensions on 31 December	252 800	255 300	262 400	265 000
Recipients of child's pensions on 31 December	28 500	28 100	28 000	27 800

*estimate

Expenditure on survivors' pensions and funeral grants is estimated at € 1.4 billion in 2002 and 2002 and 2003. This is almost 4 % of total social expenditure, and the size of this category is declining.

5.4.1 Most recipients of survivors' pensions elderly widows

The main form of survivors' pension is the widow's/widower's pension. At the end of 2001, a total of 255,300 people received widow's/widower's pension, 11 % of them men. The number of men has been rising steadily since the reform of survivors' pensions in 1990, when also men became eligible for the pension. Most recipients of widow's/widower's pension are elderly women, 80 % of them over 65 years of age (Figure 39). The number of recipients of this type of pensions will continue to rise slightly each year as the population ages.

5.4.2 Survivors' pensions more important for women

In 2001, the average total pension of widowers was € 1,235 per month, € 172 of which was widower's pension. The total monthly pension of widows was € 1,041, € 445 of which was widow's pension. The survivors' pensions received by widows are higher than those of widowers, because the pension is based on the pension or pension rights of the person through whom the benefit is derived. The widow's/widower's pension is also coordinated with the recipient's other pensions. The more pension the recipient receives from other sources, the smaller the widow's/widower's pension.

The average level of widow's/widower's pension rose steadily throughout the 1990s. This is due to the fact that employment pensions have increased year by year due to the maturity of the pension system and the increase in wage and salary earnings. Survivors' employment pensions are raised each year by the amount of the employment pension index, which in addition to price increases taken into account trends in wages and salaries, whereas the survivors' pensions of widows/widowers receiving only the general survivors' pension is raised annually by the amount of the national pensions index, which only takes into account trends in prices. There was hardly any change in the national pension index between 1993 and 1997 (Figure 40).

Children under the age of 18 on the death of the person through whom the benefit is derived are entitled to survivors' pensions. The child's pension ends when the child turns 18. Students under 21 continue to be entitled to their pension, however. In 2001, there were 28,100 children receiving child's pensions. 4,400 were under 10, 10,800 were 10-15, 6,000 were 16-17 years old and 6,800 were older. The number of recipients of child's pension has been falling slightly with the drop in the number of children, and there are fewer recipients of child's pensions in the younger age groups.

In 2001, the average child's pension was € 293 per month. Child's pensions remained virtually unaltered between 1995 and 1999, and there was even a slight fall in their level in 2000. In 2001, the average level of child's pension rose (Figure 41). The pensions of children between 10 and 17 years of age are clearly higher than those of children in other age groups.

Figure 39. Age structure of recipients of widow's/widower's pension in 2001

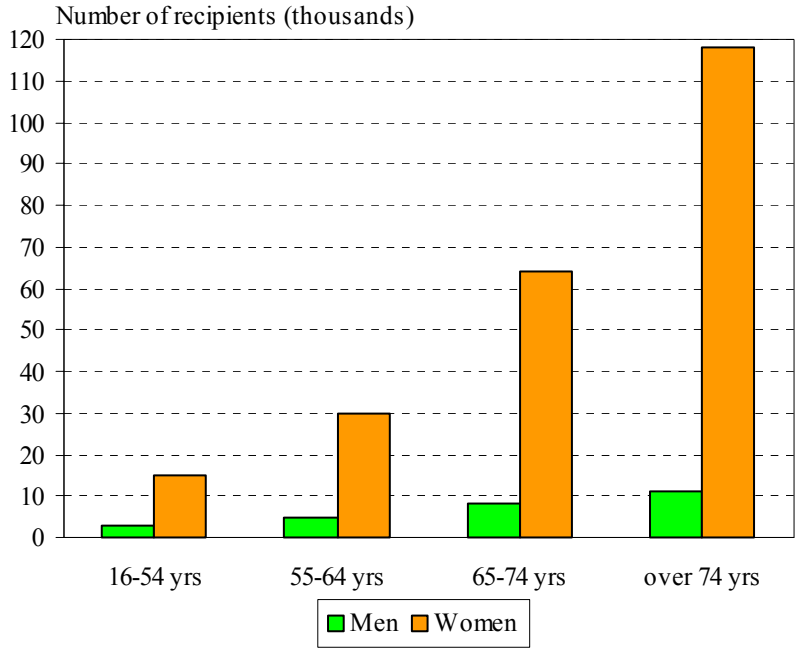
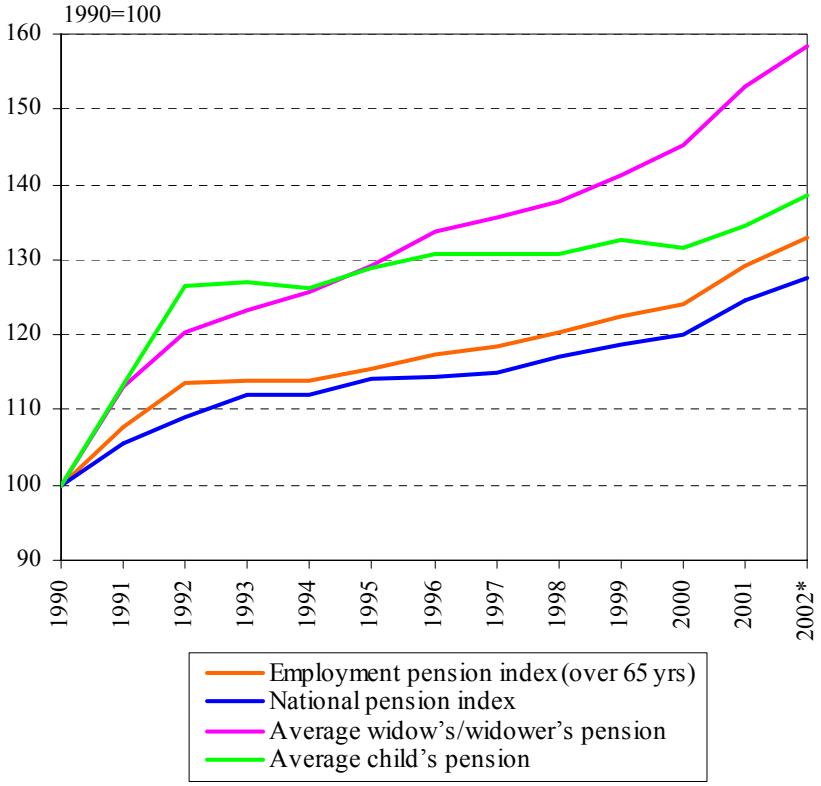


Figure 40. Trends in average survivors' pensions 1990-2002



5.5 Families and children

	2000	2001	2002*	2003*
Expenditure on main category, € million	4 007	4 088	4 100	4 130
- of which, cash benefits (€ million)	2 348	2 349	2 400	2 410
% of social protection expenditure	12.1	11.7	11.2	10.8
% of GDP	3.1	3.0	2.9	2.9
Number of mothers receiving parenthood allowance of 31 Dec	48 570	47 450	47 000	46 500
Number of children in municipal day care on 31 Dec	200 400	197 200	194 000	190 400
Families receiving child home care allowance on 31 Dec	111 600	109 140	107 100	106 000
Number of children receiving private day care allowance on 31 Dec	14 060	14 500	14 450	14 500

*estimate

The aim of the family policy support system is to create reasonable economic and functional conditions for families, allowing children to grow up in a secure setting. In 2001, family policy support[6] came to about € 4.5 billion, or about 3.2 % of GDP. The main forms of support to families with children come from child allowance and day care (Figure 41).

5.5.1 Child allowance and day care the main forms of support to families with children

In 2002, expenditure on child allowance came to € 1.37 billion. This was € 10 million less than the year before because the cohort born in 2002 was smaller than the one leaving the system. According to population forecasts, the current trend is expected to continue. No changes have been made to child allowance payments since the cuts made in 1995. The purchase power of child allowance has fallen by about 12 % since July 1995.

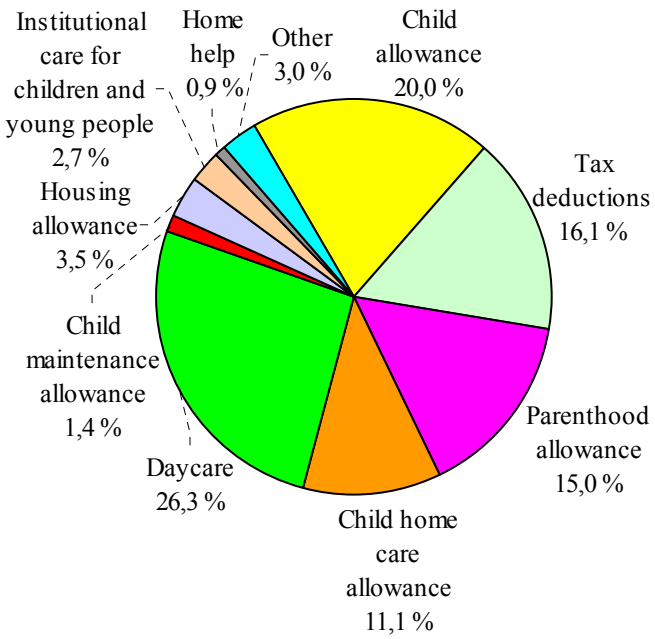
Since 1994, children in single-parent households have received a higher rate of child allowance. The number of recipients of this supplement for single parents has risen steadily. At the end of 2002, the supplement for single parents was paid for 159,170 children, which is about 1,000 more than in the previous year. The system of single-parent supplement is also abused to some extent. It is sometimes difficult to establish reliably whether a child's parents are in fact living apart, because the population register may not always contain the latest data or even an up-to-date address.

Expenditure on parenthood allowance came to € 519 million in 2002, which was € 22 million more than the previous year. This was due to higher wages and salaries, which the parenthood allowance is based on, although the number of mothers receiving parenthood allowance has not changed much. The number of mothers receiving parenthood allowance has not fallen back to the low level in the pre-recession years. In 2002, 25 % of mothers received minimum parenthood allowance. The number of fathers taking parental leave has increased steadily. In 2002, 67.6 % of fathers took paternity leave, while only 2.6 % took parental leave.

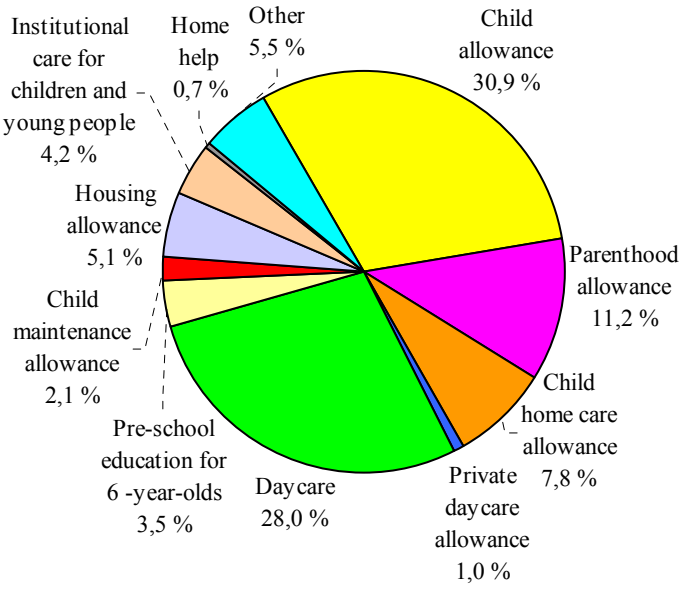
6 Family policy support is a more extensive concept than the families and children concept of expenditure in this main category. It also contains general housing allowance paid to families with children and the support coming from the tax deductibility of child maintenance payments.

Figure 41. Distribution of family policy support in 1991 and 2001

1991



2001



In 2001, total expenditure on day care was about € 9 million more than the previous year, even though the number of children in day care had fallen by some 3,300. According to preliminary estimates, total expenditure on municipal day care in 2001 was € 1.47 billion, some 15.4 % of which was covered by day care fees.

In 2002, the expenditure on statutory child home care allowance came to around € 298 million, which was € 7 million less than the year before. Expenditure on private

child care allowance came to € 22 million. Municipalities may supplement statutory forms of support with municipal supplements. In 2001, a total of € 37 million and € 23 million were paid out in municipal supplements for home care allowance and in municipal supplements for private child care, respectively. The municipalities use the municipal supplement in an attempt to reduce the demand for municipal day care, and they have been introduced especially in the larger municipalities.

In recent years, the use of child home care allowance has been fairly popular among parents of children under three. At the end of 2002, 57 % of children who were eligible were covered by child home care allowance. At the end of 2002, 69,640 families received child home care allowance for a total of 107,060 children. Those receiving the allowance had on average 1,5 children who were eligible for the allowance. The average child home care allowance was € 346 per month. 76 % of child home care allowance recipients also received a care supplement. In 2001, a municipal supplement was in use in 42 municipalities. 38 % of children under school age lived in these municipalities.

Private child care allowance provides an alternative to municipal day care for parents who wish to make their own day care arrangements for their children. The number of children qualifying for private child care allowance has been growing constantly. At the end of 2002, over 14,400 children were covered. The majority (76 %) were children three years old or older. About half of the children covered by private home care allowance were in private day care centres, while 39% were in private family day care. Private child care allowance also offers the option of hiring a child minder to look after the child at home, but this option has not been used much, only 1,740 children being cared for in this way. The average level of private home care allowance was € 127.60 per month, the average monthly fee for private day care being € 411 per child. Nineteen per cent of the children qualifying for private home care allowance also received a care supplement.

Parents usually pay a higher fee for private day care than they would have to pay for municipal day care. In 2001, a municipal private day care supplement was paid out in 90 municipalities, especially the larger ones. Private day care supplement is used particularly in the larger municipalities.

In 2002, a total of € 231 million was paid to families with children in housing allowance, which is € 4 million more than the previous year. A total of 69,000 families were housing allowance recipients. Two thirds (66 %) of the families receiving housing allowance were single-parent families. Of all single-parent families, 39 % received housing allowance, while the corresponding figure for two-parent families was 5 %.

5.5.2 Reduced support for families with children

Support from society to families with children is now slightly lower than it was a decade ago. In a European comparison, the level of support to families with children in Finland is close to average. Support per child is now about 7 % less than in 1992 (Figure 42). In recent years, the emphasis in family policy has been on the development of services aimed at families with children. All children under school age are entitled to municipal day care, and all six-year-olds are entitled to preschool education. Cuts amounting to about € 336 million were made to the income transfers to families with children in 1995 and 1996 in an attempt to balance the state economy. The cuts affected child allowance, home care allowance and the minimum level of

parenthood allowance. After the cuts, no changes have been made in the levels of child allowance or home care allowance, but the minimum level of parenthood allowance was raised at the beginning of 2003.

The income transfers to families with children are not index-fixed. The purchasing power of child allowance has fallen by about 12 % since the cuts made in 1995 (Figure 43). During the processing of the Council of State report on well-being among children and young people, the Parliament endorsed a statement saying that the cabinet will take measures aimed at improving the economic position of families with children by making child allowances index-fixed in order to secure their purchasing power.

In recent years, the number of recipients of family policy benefits has declined. The impact of falling birth rates is seen especially as a decrease in child allowance costs and need for day care. If no changes are made in the level of the various forms of family policy support and the number of children born continues to decline, expenditure on families with children will continue to fall.

Figure 42. Family policy support in 1990 – 2001 at 2002 prices

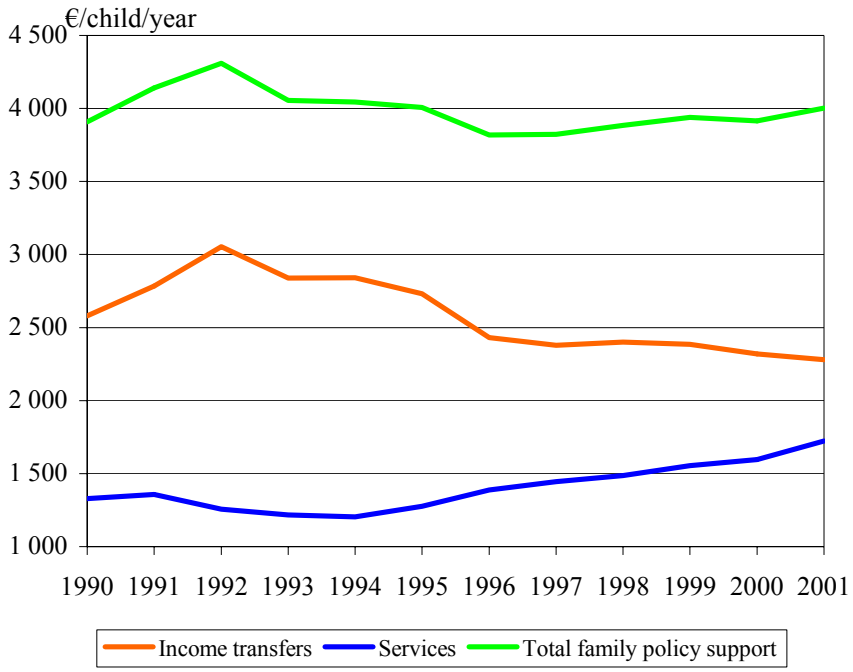
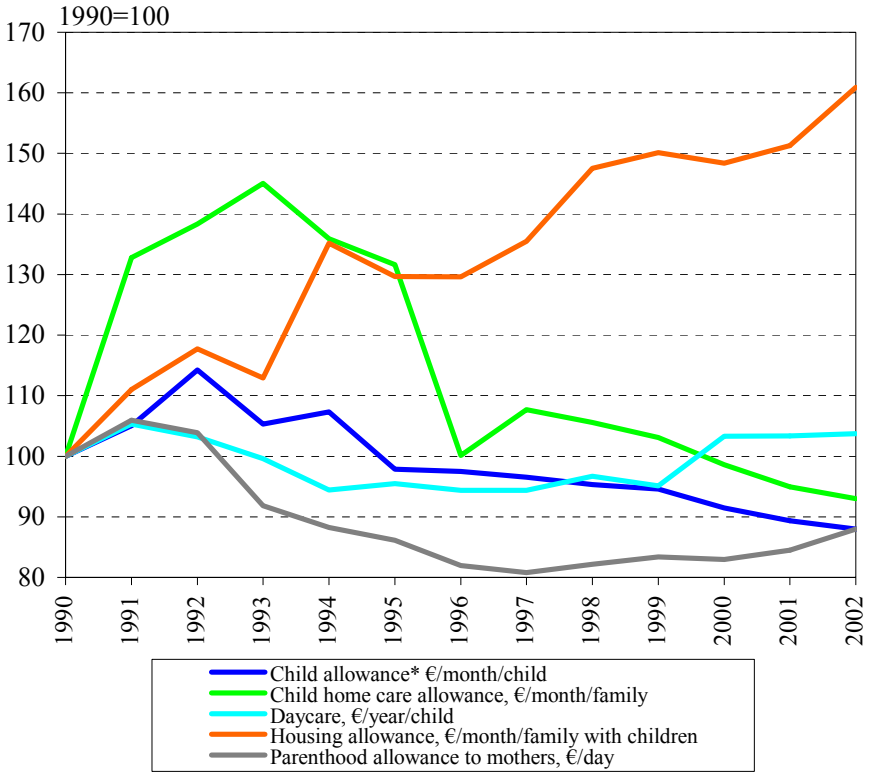
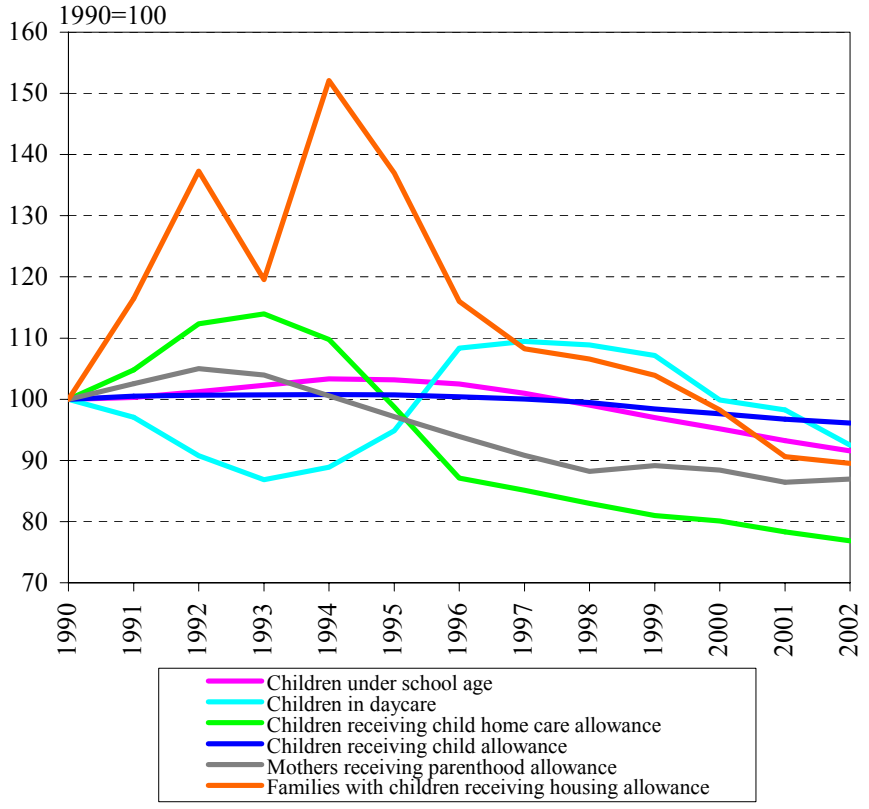


Figure 43. Real trends in family policy support, 1990-2002



* includes family policy tax deductions in 1990-1993 (child deduction in municipal taxation, single-parent deduction in municipal taxation, child care deduction in state taxation)

Figure 44. Recipients of family policy support at the end of the year, 1990 – 2002



According to the programme of Prime Minister Anneli Jäätteenmäki's government, the structure of the child allowance system will be changed in 2004 so that all families covered by the system benefit from the reform. The increase to child allowances targets the first-born child in the family. The single-parent supplement to the child allowance will also be adjusted. In 2005, the level of child home care allowance as well as minimum parenthood allowance will be raised. In order to facilitate harmonisation of work and family life, the level of partial care supplement will be raised and its scope will be extended so that it also applies to parents of children attending 1st and 2nd grade in comprehensive school.

5.5.3 Children under three usually stay at home, while older children go to day care

Considerable changes took place in the provision of care for very young children in the 1990s. Since 1990, parents of a child under three years of age have been entitled to either municipal day care for the child or to child home care allowance. As of 1996, the right to municipal day care was extended to cover all children under school age. The support systems for the care of very young children were reformed as of 1 August 1997, with the aim of clarifying and simplifying the support systems and reducing the differences between municipalities in defining day care fees.

At the end of 2001, 46 % of children under school age were in municipal day care, and 27 % received child home care allowance. The use of private day care has not been very extensive. About 4 % of children under school age received private child care allowance. About 12 % of children were cared for during the parenthood allowance period. Another 12 %, or about 49,000 children were outside the care systems eligible for support. These children are either cared for at home by unemployed parents, or are children over three with no sibling under three entitled to home care allowance, or six-year-olds in preschool education who do not need day care in addition to preschool.

Only 23 % of children under three were cared for outside the home in municipal day care. The majority of them (71 %) were cared for at home on either home care allowance or parenthood allowance. 4 % of all children under three were not covered by any system. These are probably mainly the children of unemployed parents. In such a situation, the parent caring for the child at home may opt for unemployment benefit, if it is higher than the level of child home care allowance.

Child care arrangements vary considerably according to the age of the child. Of all children aged 3-6, 63 % were in municipal day care (Figure 45). 5 % of children aged 3-6 were cared for with private child care allowance. The pre-school reform has reduced the number of 6-year-olds in municipal day care.

In connection with the reform of the support system for the care of small children on 1 August 1997, the grounds for setting municipal day care fees were standardised. Under the new system, day care fees are determined in percentages based on family size and income. In accordance with the Government Programme, client fees in the social welfare and health care sector were adjusted as of the beginning of 2000. The maximum day care fee was raised from FIM 1,000 to FIM 1,100 per month. Day care fees were raised again at the beginning of 2002 to correspond to the rise in the level of costs. The income limits used as the basis for defining fees were raised by about 6 %, while the percentages remained unaltered. The highest monthly fee charged is € 200, in which case the increase is

about 8 %. The maximum fee of the second child in the same family fell to € 180/month. There was a slight rise in the lowest fee (€ 18). As a result of the reform, day care fees of all families who had not been paying the highest fee decreased.

According to preliminary data from 2001, the total sum of day care fee payments came to about € 225 million. The share covered by client fees of the total expenditure on day care was 15.4 %.

The majority of municipalities have been successful in arranging day care according to the obligations under the legislation on day care provision. Day care is provided extensively, staff are well trained and most facilities used for day care are good. 67 % of children in municipal day care were in day care centres, while 33 % were in family day care. The share of family day care of all day care provided has diminished, and it has been partly replaced by group family day care. Family day care providers are getting older, and the number of new day care providers working at home has decreased. However, family day care in the home of the day care provider is often the parents' primary choice, especially in the case of very young children.

The sufficiency of the current number of staff in day care centres has given rise to a lot of concern lately. The groups of children in day care are often large, and there is variation in whether the number of staff is sufficient in relation to the number of children. The fast turnover of both staff and children gives rise to restlessness. This instability may lead to a growing number of disturbances in the children's development, and in large groups, children are also more likely to be ill more frequently. According to the programme of Prime Minister Anneli Jäätteenmäki's cabinet, the legislation on day care provision will be reformed e.g. by defining the maximum number of children in day care groups.

Stable, long-term relationships promote positive development in children. In its report (23/2002 State Council Decision) the social welfare and health care committee stated concerning the State Council's report on well-being among children and young people that special attention should be focused on making day care staff permanent and avoiding fixed-term employment.

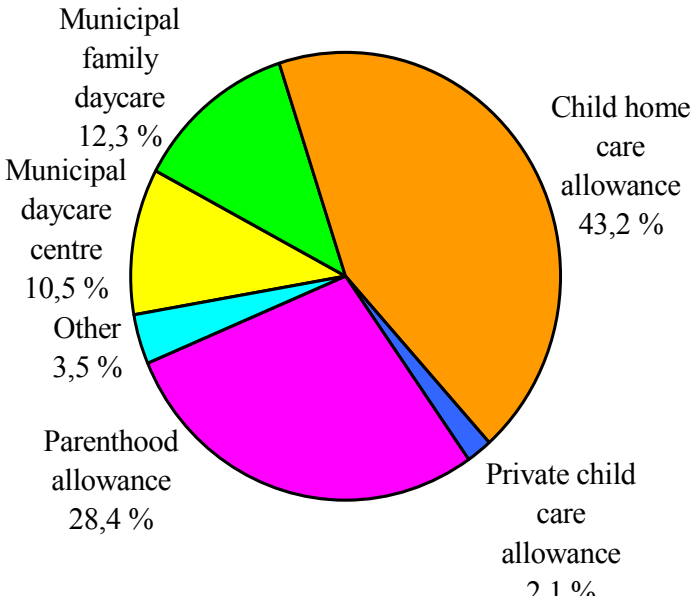
It is estimated that the number of children requiring special care and education has increased. According to a recent survey, many municipalities have not been able to provide children in day care with the special support measures they need. There is a shortage of services by specialised pre-school teachers, speech therapists and psychologists in particular.

The demand for day care in the evening, at night and during weekends grew in the 1900s. The need for day care in shifts has increased e.g. due to longer shop hours. In January 2001, about 7 % of children under school age in day care were covered by municipal day care in the evening, at night and during weekends. According to a recent survey, 32 % of municipalities have a shortage of round-the-clock care.

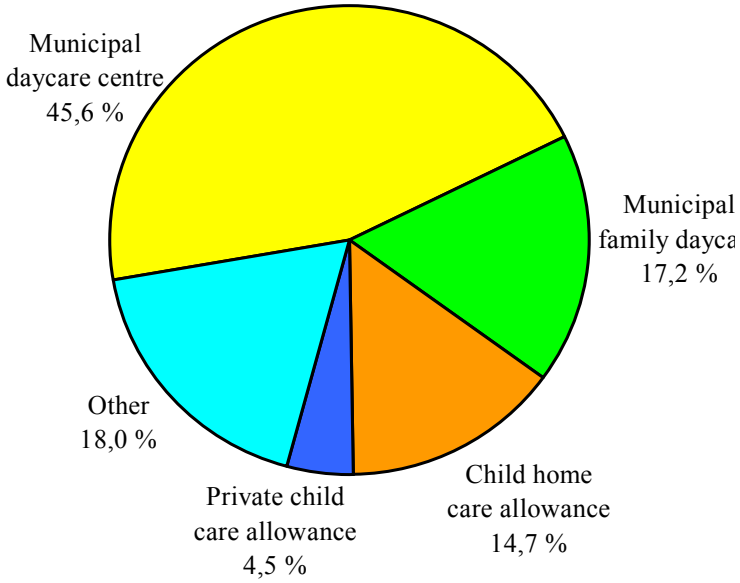
In February 2002, the Council of State issued a decision in principle on national early education guidelines, which contains the key principles of the Finnish early education system and its areas of emphasis.

Figure 45. Care arrangements of children under school age on 31 December 2001

Children under 3 yrs



Children aged 3-6



5.5.4 Falling demand for day care

At the end of 2001 there were 197,100 children in municipal day care, which was 3,300 less than the previous year. The number of children in day care has fallen as a result of a drop in the birth rate and the preschool reform. The demand for day care will continue to all in the near future. According to population forecasts, the number of children under school age is estimated to fall by about 11,000 by the year 2005, and the number of children needing day care by about 5,000. It is estimated that municipalities will need to arrange day care for some 185,000 children in 2010.

5.5.5 Shortage of afternoon care for school children

There is no legal obligation for municipalities to provide afternoon care for school children. At the end of 2001, there were about 6,300 in municipal afternoon care. In recent years, municipalities have been forced to cuts in afternoon care in order to be able to fulfil their obligation to provide day care for children under school age. Afternoon care of young school children should be developed jointly with different administrative sectors and organisations. In the past few years, church parishes and NGOs have increased their provision of afternoon care for young school children, but there is still a clear shortage in some municipalities. Afternoon care provided by NGOs is often more expensive for the families than municipal care.

In its report, the working group looking into the arrangement of afternoon care for school children proposed that all 1st and 2nd graders in comprehensive schools should be entitled to participate in daily activities, or alternatively, to participate in organised club activities at least once a week, in accordance with the need of each child and family. Daily activities should be arranged immediately before each school day and/or after it, on average five hours per day. All pupils in grades 3-9 admitted or transferred to special education are guaranteed the right to daily activities, or alternatively, the right to participate in organised club activities at least once a week. Other pupils in grades 3-9 would be entitled to club activities at least once a week. The working group also proposes that parents' eligibility to partial child care leave and partial care supplement be extended to the time when the child starts third grade in comprehensive school. In the working group's opinion, the need to care in the evening and the night as well as other times during school holidays must be looked at separately in connection with the comprehensive reform of the Day Care Act.

According to the Government programme of Prime Minister Anneli Jäätteenmäki, the Government is preparing a law proposal concerning morning and afternoon care of school children. As of autumn 2004, morning and afternoon activities are provided for pupils in grades 1 and 2 of comprehensive school as well as those in need of special support. The extension of partial child care leave will be extended to apply to parents of pupils in grades 1 and 2.

5.5.6 Administrative experiment in children's day care

As of August 2003 a temporary law will come into effect, according to which municipalities may decide which organ is to have administrative responsibility for children's day care, child home care allowance and private child care allowance. All these must fall under the jurisdiction of the same administrative organ. As a result of the reform, municipalities will have more say as to day care administration. The law will be in effect until 31 July 2008.

The reform will not transfer day care away from the social welfare sector. Day care, child home care allowance and private child care allowance will still be provided under social welfare legislation and be governed by the Ministry of Social Affairs and Health. Neither will the reform affect the system of government grants.

Children and families are not directly affected by how day care administration is arranged on municipal level. From their point of view, the most important thing is that appropriate, high-quality services are available in a way that meets the needs of children and families. What does have an

impact is what the Social affairs and health committee points out in its report (49/2002), i.e. when administrative responsibility is transferred to another organ, civil servants in the educational sector must be given enough information of the legislative differences between day care and basic education in schools. Persons who manage day care under the administration of the educational section are to make sure that all those working under their administrative section in day care are familiar with the relegations concerning data protection, client fees and appellate procedures, which differ from those in legislation concerning education. In cases when the task of day care provision is transferred to municipal officials in the education section, they must be carefully instructed in various regulations and their application.

The law reform has been controversial during all its processing stages. Those opposing the proposal have primarily focused on the tight link between day care and other forms of social welfare as well as the importance of administration for the contents of practical work. The views on how service systems related to children and families with children should be linked on municipal level are sometimes quite opposite. Those in favour of the reform see it as very important that municipalities are able to make administrative arrangements in a way that is best suited for local circumstances.

5.5.7 Harmonisation of work and family life

Lack of time for their children on the part of parents has come up in several surveys charting children's views and concerns. The possibility of harmonising work and family life is a key factor in supporting parenthood. Parenthood is increasingly recognised as a factor contributing to working life in a positive way.

Fathers and mothers with children are more often involved in working life than men and women on average. Only one in three mothers with a child under three works outside the home, but most mothers with older children go out to work. On the other hand, fatherhood has no effect on men's work; they work as commonly regardless of the age of their child.

For the harmonisation of work and family life, it is important that parents with young children can divide responsibility for the care of their child in a flexible manner. The harmonisation of work and family became easier as of the beginning of 2003. The aim of the reform was that the family leave system would offer families more versatile alternatives and opportunities that make work and family life more compatible. The current 18-day paternity leave for fathers was extended by 12 weekdays, if the father takes a minimum of 12 weekdays of his paternity leave at the end of the parenthood allowance period and the extended paternity leave immediately afterwards. The uninterrupted leave would thus be 24 weekdays. The aim of increasing the length of the paternity leave is to make fathers' more interested in taking advantage of the other forms of child care leave as well. This is seen as positive as it improves the relationship between the father and the child and promotes more equal distribution of child care leaves. The time limit included in the paternal leave may make its use less widespread than predicted. Taking paternal leave in a situation when the mother intends to take child care leave may be problematic, because in order for the father to be given paternal leave, the mother must return to work for one month's time.

Part-time parenthood leave has been possible as of the beginning of 2003. Parents may divide responsibility for child care between themselves by taking part-time parenthood leave and working part-

time. The arrangement may contribute to equality, both between parents and in working life. Entrepreneurs are also entitled to part-time parenthood allowance. The extension of the parenthood allowance period was also made more flexible in families with more than one child born at the same time. The extended period can be taken either during the maternity or parenthood allowance period or following the parenthood allowance period.

5.5.8 Family structures change

The number of families with children has been declining steadily. At the end of 2001, there were 605,300 families with children, which is 7,300 less than the year before. At the same time, changes have also taken place in family structure. The number of cohabiting couples with children is growing all the time, accounting at present for 16 % of all families with children. These are families with young couples as parents. At the moment, as many as 53 % of first-born children are born outside of marriage, but in many cases the parents do get married later on.

In the 1990s, the rising divorce rate led to an increase in the number of single-parent families. 20 % of families with children are single-parent families, and the number of children in them is 183,400. The number of reconstituted families has also been growing somewhat in recent years. At the end of 2001, there were about 48,400 reconstituted families, or about 8 % of al families with children. A total of about 100,300 children live in these families.

13,800 marriages ended in a divorce in 2001. There were about 19,000 children in these families. Divorce statistics do not show separations between cohabiting couples. Cohabiting couples as almost twice as likely to be separated than married couples.

There are two different trends in evidence in families. The number of families with children is growing slightly, but an increasing number of women remain childless at the same time. The average number of children in a family is 1.8. The number of families with only one child has fallen, while families with thee or four children have become more common.

5.6 Unemployment

	2000	2001*	2002*	2003*
Expenditure on main category (€ million)	3 345	3 314	3 530	3 850
- of which, cash benefits (€ million)	3 040	2 990	3 230	3 550
% of social protection expenditure	10,1	9,5	9.7	10,1
% of GDP	2,0	2,4	2.5	2.7
Employment rate, %	66.0	67.7	67.7	67.7
- women	66.2	65.4	69.0	61.3
- men	69.2	70.0	69.4	69.4
Unemployment rate, %	9.8	9.1	9.1	9.4
- women	10.6	9,7	9.1	9.2
- men	9.1	8.6	9.1	9.6
Recipients of earning-related allowance at year end	136 200	130 260	129 000	130 000
Recipients of basic allowance at year end	16 530	17 900	18 900	20 000
Recipients of labour market support at year end	155 750	155 200	150 000	155 000
No. of people in labour market training at year end	31 000	27 800	28 500	30 000
Unemployment pension at year end	54 300	58 000	58 000	58 800

* estimate

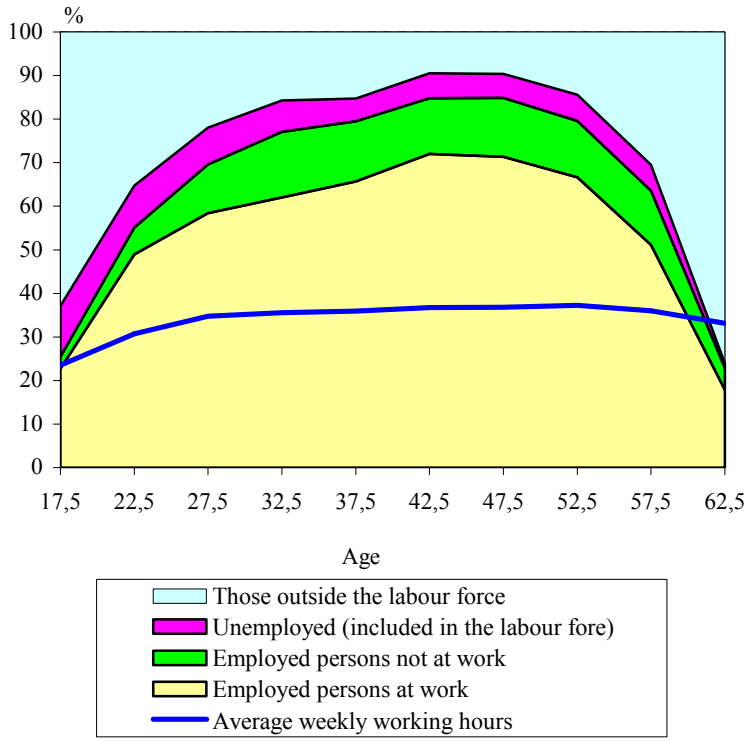
A high employment rate is the key aim of EU's employment strategy. The aim is to raise the employment rate to 70 % of working-age population by the year 2010. The targeted employment rate for women and people aged 55-64 is 60 % and 50 %, respectively. At present, the employment rate in Finland is under 68 %. The most important objective of the economic policy of Prime Minister Anneli Jäätteenmäki's cabinet is to have at least 100,000 more people employed by the end of its mandate. This and setting up a strong basis for a positive employment trend even in the years following the present cabinet's mandate is necessary, so that a 75 % employment rate can be achieved by the end of the next mandate.

Strong economic growth is required throughout the cabinet's mandate period in order for the cabinet's employment goals to be attained. The growth must also be more employment-intensive in its structure. Besides secure prerequisites of economic growth, improved employment also calls for longer work careers, increased employment intensity, lowering of structural unemployment and guidance of regional development. Raising the employment rate calls for the utilisation of the work input of all working-age people as effectively as possible. It must be possible to lower unemployment while lengthening people's work careers, both at the beginning and at the end.

The emphasis of the employment programme is on lowering unemployment and promoting the supply of labour. In order to raise the employment rate and to prevent exclusion caused by unemployment, the cabinet is launching a separate multiadministrative programme. A key part of the programme is development of regional cooperation of various authorities responsible for employment measure required by labour development centres. Current and new services aimed at persons who are the hardest to employ as well as their resources will be concentrated in the labour development centres.

Figure 46. Percentage of people included in the labour force, the employment rate and the number of those employed according to age

Men



Women

Figure 46 shows the participation in work of men and women according to age. Those not included in the labour force include pensioners, students and e.g. persons caring for a child at home. People included in the labour force who are not employed are unemployed. Employed persons are those who are working or on a leave, such as annual leave, sickness leave, rehabilitation or study leave. Of people on parenthood leave, those with a continuing employment relationship are employed; others are outside the labour force. Those who take care of a child at home on child-care leave are not part of the labour force. The proportion of people in the labour force shows how many working-age people belong to the labour force, while the employment rate indicates how many working-age people are employed. The average number of working hours represented as a curve shows that with the exception of young people, nearly all employed people in Finland work full hours.

The employment rate can be raised by employing people outside the labour force and by reducing unemployment. The number of people at work is not wholly linked to the number of employed persons, and there is even less correspondence between the number of employed persons and the number of actual working hours. In Sweden, the employment rate exceeds 75 %, a smaller proportion of employed people are at work compared to Finland, and average working hours, especially those of women, are clearly shorter than in Finland.

5.6.1 Fewer recipients of unemployment benefits

At the end of 2002, there were a total of 304,000 unemployed job seekers registered at job centres, which was 13,000 less than the previous year. The number of long-term unemployed who had been without a job for over a year with no interruptions was almost 78,000, which was 2,300 less than the year before. 83,000 persons were covered by training and supported employment measures provided by employment administration. This was over 10,000 more than the previous year.

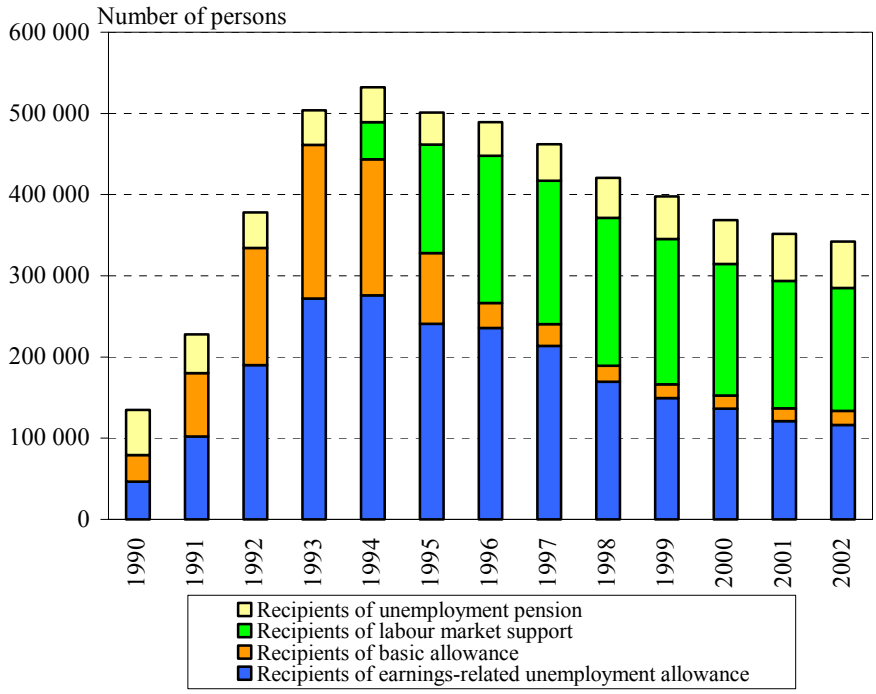
On the whole, the number of persons receiving unemployment benefits has diminished. The continuing high long-term unemployment and youth unemployment have however slowed down the decline in the number of unemployment benefit recipients.

People receiving labour market support are clearly divided into two groups: the long-term unemployed who have exceeded the limit of unemployment allowance (500 days), and the young or people with weak careers, who do not fulfil the work criterion to qualify for unemployment benefit. 121,000 of those receiving labour market support were unemployed, 8,600 were doing practical training and 10,900 were in training.

At the end of 2002, the number of people receiving labour market support was almost 140, 000. 125,000 people received earnings-related unemployment allowance, and 17,500 received basic allowance. In addition, 6,900 received the integration allowance intended for immigrants that corresponds to labour market support.

A long-term unemployed person who has filled 60 may receive unemployment pension until qualifying for old-age pension. The rising trend in the number of unemployment pension recipients seems to have stopped. At the end of 2002 their total number was 58,000. With the reform of employment pension security, unemployment pension for those born after 1950 will be discontinued (see 4.3.2.)

Figure 47. Recipients of basic and earnings-related unemployment allowance, labour market support and unemployment pension 1990-2000, person years



The age and gender distribution of earnings-related unemployment allowance and labour market support differ from each other: the age pyramid of labour market recipients is even in shape, unlike that of earnings-related unemployment allowance recipients, where older age groups dominate. The majority, 56 %, of labour market support recipients are men, whereas the majority, 55 %, of earnings-related unemployment allowance recipients are women. The proportion of men and women is very similar in all age groups.

5.6.2 Adjustments in unemployment benefit levels

The level of unemployment allowance was raised from the beginning of 2003 with an index adjustment. The basic allowance rose to € 23.02 per day. The labour market support was also raised correspondingly. If the unemployed person has children under 18 to look after, child increments are paid in the following manner: € 4.36 for one child, € 6.40 for two children and € 8.26 for three or more children.

Full labour market support equals the amount of basic unemployment allowance. Labour market support is a form of support subject to means testing. Its amount is decreased by the applicant's own income in full and those of the spouse for the part of income exceeding € 236. The income limit qualifying for full labour market support of a person with underage children to support is € 848 per month, and that of a single person € 253 per month. This income limit is raised by € 106 for each child under 18 supported by the applicant. The labour market support of a person with underage children and that of a single person is decreased by 50 % and 75 %, respectively, for the income exceeding the upper limit. No means –testing is applied for granting labour market support during participation in labour policy training or during the 180 days of unemployment following the maximum number of days of

earnings-related unemployment allowance. In 2002, labour market support that was reduced due to means testing was paid to 25,900 persons for a total of 2.6 million days, which was 6.7 % of all labour market support days. In 2002, living in the same household with one's parents reduced the amount of labour market support by 40 %. 26,850 persons received this partial labour market support during 2002.

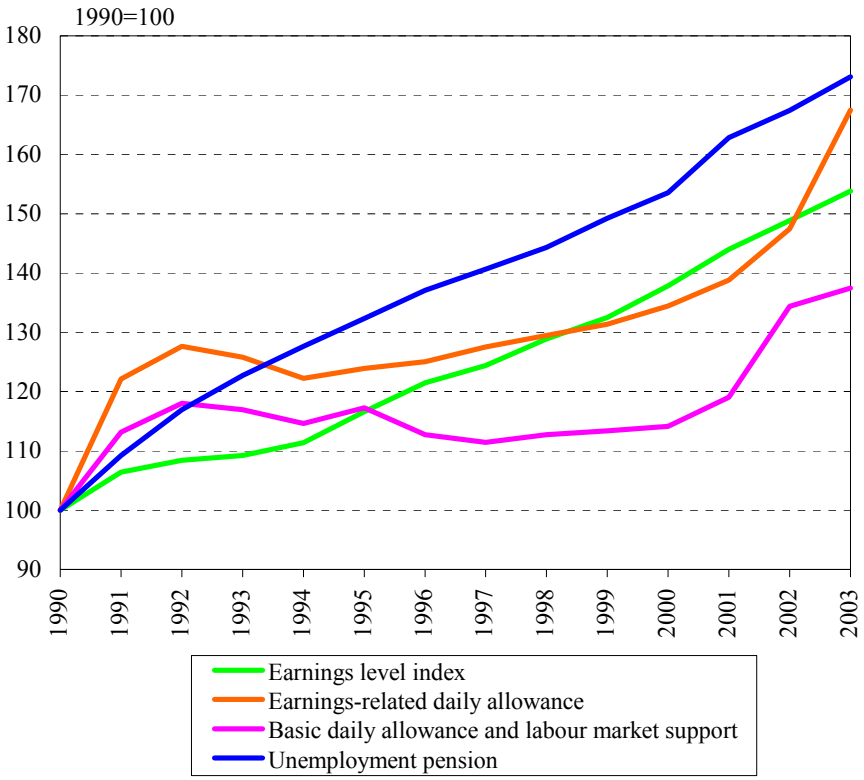
An unemployed person who takes part in independent education that promotes vocational competence is paid an education allowance. A precondition for eligibility for the allowance is that during the 12 months immediately prior to the education, the applicant has been receiving unemployment benefit or labour market support for a minimum of 86 days (4 months), and that he or she has been working for a minimum of ten years.

The education allowance is equal in size to unemployment benefit. The education allowance is paid out for a maximum of 500 days. The education allowance paid out is included in the maximum duration of 500 days of unemployment allowance. The total combined duration of education allowance and unemployment allowance is at the most 586 days. In 2002, a total of € 9.5 million was paid to 1,670 people in earnings-related education allowance, while 840 persons received a total of € 2,5 million in basic education allowance.

The system of severance pay was discontinued as of 1 January 2003. Severance pay has been replaced by raising the earnings-related unemployment allowance. The increased earnings-related unemployment benefit is paid for 150 days to a person who has been discharged for economic or production-related reasons. A precondition for this is a minimum of 20 years of work history and five years' membership in an unemployment fund. The adult education increment of severance pay is replaced by increasing the earnings-related support of employment education and education allowance for the unemployed.

Figure 48 shows the trends in unemployment benefits compared to the increase in the level of earnings. In the 1990s, the level of basic unemployment allowance and labour market support lagged clearly behind the increase in earnings level. These benefits are not tied to the earnings level index. In 2002, the level of these benefits was raised. Persons taking up new unemployment pensions are employees with a long work history, which means that the new pensions are usually better than those of people who have retired earlier; thus the level of pensions increases faster that the general level of earnings.

Figure 48. Average unemployment benefits in 1990-2003 at current prices



5.6.3 Changes in benefits to postpone retirement[7]

In 2002, the average age for taking up a pension in Finland was around 59. The official retirement age is in most cases 65. At the beginning of 1997, the lower age limit of the avenue to unemployment pension was raised by two years, from 53 to 55. The raising of the age limit and strong economic growth has improved the employment situation of elderly workers (Figure 49).

Central labour market organisations reached an agreement in November 2002 on the development of employment pensions in the private sector. At the same time the unemployment benefit system was reformed. The aim of the reform is to improve further the employment situation of elderly workers. The age limit for qualifying for additional days will be raised from 57 to 59 years. In future, those eligible for additional days would also have to fulfil the requirement of having worked for a minimum of five years during the past 20 years at the point when the maximum amount of 500 days of earnings-related unemployment allowance is up. The person would still be able to look for a job should he wish to do so, and be entitled to unemployment allowance as well as additional days until the end of the month he turns 65. The reform regarding additional days replaces unemployment pension.

The reforms concerning additional days and unemployment pension enter into force after a transition period. Current regulations concerning eligibility for additional days will be applied in the case of people born in 1949 or earlier, whereas the right to additional unemployment allowance days replaces unemployment pension in the case of persons entitled to

[7] Reforms concerning the employment pension system are also described in 4.3.2.

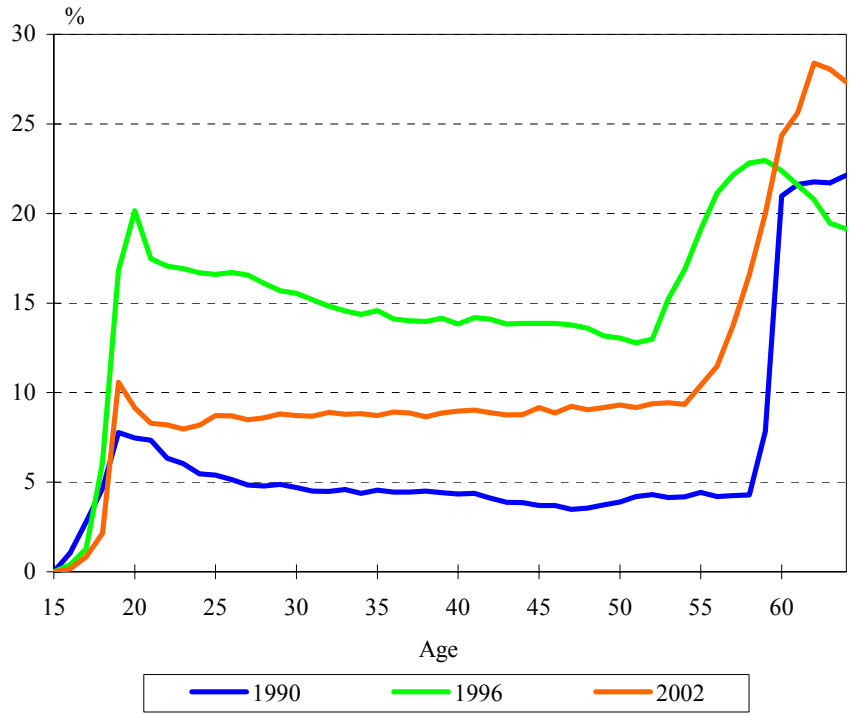
additional days after 1 January 2007. The level of allowance paid out during the additional day will also be adjusted closer to the pension level. If the person entitled to additional days has a minimum work history of 20 years, the level of the allowance is raised so that the percentage of the part exceeding earnings is 32.5.

The problems of an ageing labour force are pronounced in Finland. Due to the age structure of the population, people aged 50 or more will increase their share of the work force by 5 % over the next ten years. The employment situation of the over 55s has improved surprisingly much in recent years. Managing the rise in employment caused by lower economic growth while preparing for a future shortage of labour poses a challenge for the next few years.

However, unemployment is also pronounced among elderly workers: in 2001, nearly one third of unemployed job seekers looking for a job at job centres were over 50 years old. With regard to this, it needs to be studied to what extent an employer-specific risk related to pension regulations makes it unnecessarily hard for elderly workers to find new employment. Flexible solutions for leaving the work force should be developed especially for employees with outdated skills and diminished working capacity.

In Finland, long periods of unemployment are particularly typical of older workers. One reason for this has been the possibility for the so-called additional days included in the unemployment benefit system. In practice this means that unemployed persons over 55 can be covered by earnings-related unemployment allowance until taking up unemployment allowance, i.e. for as long as five years.

Figure 49. Unemployed job seekers and unemployment pension recipients in 1990, 1996 and 2002 as a proportion of working-age population



5.6.4 Slower rise in the number of the employed

In 1995-2002, the number of the employed increased by 318,000 persons, while it decreased by a total of 450,000 persons during the recession years 1991-1994. In 2002, there were on average 2,372,000 employed people. In 1995- 2002 the employment rate rose from 60.0 % to 67.7 %. During the said period, the Finnish employment rate rose clearly more than the EU average.

The changes in the number of the employed varied considerably according to age groups. The number of people with a job rose mainly among older age groups. The biggest increase, 12 %, was seen last year among in age group 55-59. Employment among older persons in age group 60-64 also increased by 6 %. This is mostly due to the so-called age cohort impact. As a result of the recession, the employment situation of elderly workers was weakened. However, as these cohorts stay on at work better than before, their employment rate also rises. The number of the employed decreased in all other age groups with the exception of age group 25-29, which showed a slight increase by 3 %. A particularly sharp dip (7 %) was seen in the number of the employed among age group 15-19.

The employment rate of women is high in Finland, as in the rest of Scandinavia, being on the same level as that of men. Before the recession of the early 1990s the employment rate of Finnish women, 71.5 %, was the second highest in the world, only Sweden having a higher rate. As a result of the recession, women's employment rate went down in Finland at the same pace as that of men. As women's employment rate has risen faster recently in other industrialised countries than in Finland, the employment rate of Finish women was only the ninth highest in 2000. However, it is much more common for Finnish women to go to work than in many other industrialised countries or in EU member states on average. The number of young women who work has diminished in the 1990s in particular, due to extensive studies before entering working life. The employment rate of elderly women did not rise in the 1990s, and has remained relatively low compared to women aged 25-54.

The improvement of employment is mainly concentrated in southern Finland and centres of growth in other areas. Last year, as the rise of the employment rate started to slow down, it focused particularly on high-growth regions. Migration is directed to the areas showing improved employment, whereas areas suffering from population loss are those where employment has not been improved despite an economic upswing. Migration has been particularly marked among highly educated people. The slower improvement of employment in growth centres also slowed down migration.

5.6.5 Long-term and repeated unemployment

A key reason for exclusion from the job market is that the demand and supply of labour do not meet. Following the recession, there were changes in the structure of production and the demand for labour, both in industry and in the service sector. This meant that a large number of people who had lost their jobs during the recession could not find a job as the economy picked up. Expanding enterprises have been able to recruit staff directly outside the pool of labour, or from among employees wishing to change jobs. For the unemployed, getting a job has often required retraining. Although the total number of unemployed has been falling for some time, finding employment has been selective. The demand for labour focused

first on persons who had only been without a job for a short while, whereas long-term unemployment continued to grow for several years even during economic growth. The long-term unemployed are often elderly, and they also include people with disabilities, immigrants and people with a low level of education, with little working experience.

The loss of jobs reached its height during the recession, particularly in areas of high unemployment in eastern and northern Finland. Almost a third of the jobs in Kainuu were lost during the recession, and they have not been replaced despite the fast recovery of the national economy.

From the point of view of unemployment, this trend means that long-term and repeated unemployment has increased and the problem has become increasingly structural. In 2002, almost 60 %, or nearly 180,000, of the unemployed job seekers included in employment administration statistics were long-term or repeated unemployed. Unemployment that lasts for a long time, interspersed with short periods of employment or training is most common among older age groups. From a regional perspective, long-term and repeated unemployment is more prevalent outside centres of growth.

A prerequisite for a fall in the unemployment rate is that the unemployed are fit for the job market and thus employable. This is particularly true of the long-term unemployed, in whose case gradual loss of skills, social stigma and exclusion are a threat to employability even in times of high demand for labour. The employability of the unemployed can be improved e.g. by training, measures aimed at maintaining skills and supported employment. A particularly challenging target group is this respect is made up of unemployed foreign nationals in Finland, whose employment is restricted e.g. by language difficulties and difficulties in adapting to Finnish working life.

The possibilities of improving the employability of elderly and disabled workers are naturally more limited. Especially in the case of elderly workers with outdated skills and diminished working capacity due to various reasons, flexible systems of leaving the work force should be resorted to.

5.6.6 Active labour policy

Training of labour, practical work training and supported employment have contributed to a reduction in the number of the long-term unemployed. At the end of December, 82,800 persons were covered by employment administration education and employment measures. In addition, about 2,000 were employed with the aid of employment-related investment and some European Social Fund projects. All in all 3.3 % of the work force were employed with the aid of these measures.

At the end of December, 35,3000 people were employed with the aid of salary-based employment administration measures. 7 % of those employed in this manner worked for the government, 35 % for municipalities and 58 % in the private sector. In December, 8,600 persons were in practical work training and working life training with the aid of labour market support. An additional 2,300 persons receiving only labour market support were employed with combined support. The total number of those employed with the aid of combined support was 15,800, 13,400 of whom also received employment support. At the end of December, 5,200 persons were employed to replace an employee on job alternation leave, and 31,300 were in labour training.

The significance of active employment measures is clearly lower in Finland than

e.g. in Denmark or Sweden. In future, the number of people covered by active measures must be raised to an international level, so that unemployment among the poorly employable can be broken off and they can return to work on a permanent base. Finding employment for the long-term and repeatedly unemployed calls for active measures over a longer period of time than getting highly employable people who have been jobless for a short while back to work.

During the years 2004-2006 the central government will implement a structural reform of public employment services, creating prerequisites for the abolishment of structural unemployment. The reform aims at differentiating job brokering and the provision of support measures required by the unemployed who are poorly employable.

In order for the reform to support an efficient reduction of structural unemployment, a sufficient share of employment appropriation and labour policy measures are aimed at improving the conditions of finding jobs for people that are poorly employable, in accordance with EU's employment guidelines. The financing of the horizontal programme of EU's structural funds will be made use of to this end in the future as well. The target level of activation as defined by the EU is 27.30 %, taking into account the quality and impact of employment measures. The objective is to raise the employment rate and reduce unemployment in the area of each Employment and Economic Development Centre.

In accordance with the programme of Prime Minister Anneli Jäätteenmäki's cabinet, benefits will also be developed so as to activate people more. The emphasis in labour market support will shift from passive to active support. The maintenance compensation of labour market support will be turned into an activation increment, and people will have more opportunities to take part in active measures. A model will be drafted in which a person who has been unemployed for a certain period of time must take part in activation measures, whose impact will also be improved. A condition for the implementation of the system is that a sufficient amount of active measures is available. At the same time, means testing with regard to spouse's income will become more moderate.

5.6.7 Lowering employers' contributions

Attempts can also be made to lower structural unemployment by supporting low-paid jobs as well as jobs with lower than average productivity. Low-productivity jobs have received support in recent years in many EU countries, e.g. the Netherlands, France and Belgium.

Also in Finland, attention has been focused on the fact that demand for poorly trained and less skilled labour has diminished. Current labour rates and indirect employment costs may raise the cost of labour too high in relation to productivity, which means that no new job opportunities are created. The employment situation in fields with poorly trained workers and low productivity is not improved in such a scenario, even if the supply of labour were to be encouraged with tax reliefs on low earned income or by cutting benefits.

According to the programme of Prime Minister Anneli Jäätteenmäki's cabinet, measures will be taken in Finland as well to address this problem. Taxation targeting work will be lowered by lowering taxation on earned income, by cutting employers' contributions in the case of low salaries and wages in a manner to be specified later, and some reforms in the VAT system. Attempts will be made to increase the demand for low-paid work by targeted

cuts in indirect labour costs. The cabinet will have a survey carried out concerning whether it is practically feasible to implement the lowering of indirect employment costs targeting low-paid work.

Lowering employers' social insurance contributions is one way of attempting to increase the demand for labour. In the short term, the reduction will lower labour costs, but according to studies, in the longer term most of the reduction is transferred to employees' salaries and wages or company profits, in which case the desired employment impact is not achieved. Employer contribution cuts targeting low-production work, for instance, do not thus improve employment in the long term, but measures aimed at improving the competence of workers and employment in the long run are needed in order to address the problem itself, i.e. the fact that demand and supply of labour do not meet.

Improving employment in fields with low productivity calls for a battery of means and various measures that support each other. Implemented simultaneously, cuts in employers' contributions or support aimed at employers, tax reliefs on earned income as well as an active employment and social policy complement each other.

Experiences from other countries show that the employment impact of measures aimed at supporting low-productivity work have been positive, albeit not very significant. Surveys carried out in Finland concerning the impact of graduated social insurance fees have led to the conclusion that a significant increase in employment could only be achieved with sizable reductions in employer contributions.

In Finland, employers' tax-like social protection payments have been criticised in particular. The criticism has mainly focused on the national pension insurance payment and that part of health insurance payment which is not clearly related to the beneficiary's earnings. It would be well motivated to collect only payments related to earnings-related benefits on the basis of salaries and wages, and finance minimum social protection with general tax revenues.

This principle has received widespread support. It was also endorsed by the latest working group looking into employer payments in 1999. In the opinion of the working group, no new temporary graduation should be introduced in social insurance payments; the system should rather be made more simple and transparent. The working group proposed that employers' national pension insurance payment be gradually abolished, and that reduction of the payment should start gradually from the lowest payment category. This way the effects of the reduction would focus on employment-intensive fields and low-paid labour.

In accordance with this line, the amount of the lowest national pension insurance fee was reduced as of the beginning of July 2000. At the beginning of March 2002, the national pension insurance payment was reduced further in all payment categories, but the reduction was still greatest in the lowest category. The social protection contributions of municipal employers were also reduced. As the highest amount of earned income deduction has at the same time been raised in 1997,1999, 2000 and 2002, these measures support each other in the attempt to improve employment among low-paid workers.

Holm and Vihriälä (2002) have looked at the graduation of employers' social security contribution according to wage level in such a manner that employer contributions for low-paid jobs were to be reduced in particular. A corresponding graduation of social security contribution according to wage sum has been proposed before in Finland – the last proposal came

from rapporteur Risto Suominen in 1997, but due to practical problems it has not yet been implemented.

The costs and effects on unemployment of employment support and payment reductions are critically dependent of how well the measures target the groups intended. The payment reductions proposed by Holm and Vihriälä apply to a large group of people, since it targets all low salaries and wages, of both new job opportunities and people already at work. The costs of payment reduction would amount to some € 700 million per year, which is about 0.5 % of the GDP. It would take about € 1,700-2,900 per person and per month for 20,000-35,000 persons to be employed as a result of the measure, as estimated by Holm and Vihriälä. The estimated employment effects of the proposal are thus not very significant, and the proposed system is not an effective means of reducing unemployment. If the objective is expressly the reduction of unemployment, the support targeted at employers could be tailored more precisely by applying it only to unemployed persons, or even more so, to young or long-term unemployed, for example.

In practical terms, the greatest problems with respect to the proposal are related to implementation of the system. Reducing employers' social security contributions levied on low-paying jobs would require setting up new data systems in Finland. Collecting data on employment relationships as well as wages and salaries concerning individual employees may also increase administrative pressure on company level. In addition, the prevention of possible abuse of the system would call for supervision of some kind.

The reduction of employers' social security contributions proposed by Holm and Vihriälä is also problematic from the point of view of financing of social protection. If employers' social security contributions are lowered, social security costs must be financed in some other way. If the payment reductions concerning low-paid workers are compensated for by raising other employer contributions, the final impact of the measure on employment as a whole is uncertain.

Even today, social security contributions are graduated with regard to several factors. Yet another graduation would make the system even more complicated and would reduce transparency between benefits and financing. Trends in employer contributions should be as stable as possible in order for the system to be predictable and credible. If changes are made to contributions due to employment reasons, it should only be done after careful consideration. One alternative is to direct the support to low-paid labour proposed by Holm and Vihriälä directly to employers, by calculating the support based on employees' wages in the manner proposed, but without linking it to employers' social security contributions.

5.6.8 Financing of unemployment security

Labour market support is financed by the central government, while basic unemployment allowance is financed by the central government and revenue from employee's unemployment payments. Basic social security is financed by the share of employee contribution revenues coming from those employees who do not belong to unemployment funds. In 2002, this amounted to € 31.5 million.

Of the earnings-related benefits paid out by unemployment funds, the central government financed a share corresponding to the amount of basic daily unemployment allowance. The central government does not, however, contribute towards financing of benefits paid out

during temporary lay-offs and additional days. Unemployment funds financed 5.5 % of all earnings-related daily allowances in 2002, while the rest is financed by the Unemployment Insurance Fund. An exceptional financing system is in use in the case of labour policy education allowance, where unemployment funds cover 5.5 % of the earnings part of earnings-related allowance. No unemployment insurance fund contributions are made to the daily allowance of entrepreneurs; the central government finances the basic daily allowance and child increments, while unemployment funds finance the rest.

When education benefits for the unemployed are included in the benefits for the unemployed during active measures, a total of € 415 million was paid out during active measures, amounting to 16.5 % of all benefits. The government grants totalled € 1.6 billion, € 325 million, or 20 % of which went towards financing benefits paid out during active measures.

Table 7. Financing of unemployment benefits and education benefits for the unemployed

		Financing shares			
	Benefits paid out, €	Central govern-ment	ESF*)	Unemp-loyment funds	Unemp-loyment Insurance Fund
Earnings-related daily allowance	1 239 757	482 369		70 220	687 167
Basic daily allowance	98 163	66 663			31 500
Labour market support for the unemployed	764 101	764 101			0
Benefits under passive unemployment time	2 102 021	1 313 133		70 220	718 667
Active labour market support measures	238 948	222 878	16 070	0	0
Labour training benefits	164 475	95 319	11 860	2 914	54 382
- Benefits paid out to recipients of earnings-related daily allowance	133 083	67 693	8 094	2 914	54 382
- Benefits paid out to recipients of basic daily allowance	12 269	11 105	1 164	0	0
- Benefits to those in training with labour market support	19 123	16 522	2 602	0	0
Independent training	12 053	7 050	0	557	4 446
- Earnings-related security	9 515	4 511	0	557	4 446
- Basic security	2 538	2 538	0	0	0
Benefits during active measures	415 476	325 247	27 930	3 471	58 829
Total benefits	2 517 497	1 638 380	27 930	73 691	777 496

*) includes both national and EU funding

The financing of earnings-related unemployment allowance was the largest single expense category of the Unemployment Insurance Fund. The Fund's share towards financing the alternation leave compensation is defined in the same manner as in the case of earnings-related daily allowance. In addition, the Unemployment Insurance Fund also finances employment pension supplements. The Fund makes an annual payment to the Central Pension Security Institute, which compensates for the fact that the time of unemployment is taken into account in pensions. In 2001, the employment pension supplement was € 312.7 million. The Fund also contributes towards the costs of the pension system with a payment to the State Pension Fund, amounting to € 5.2 million in 2001. The Unemployment Insurance Fund is also responsible for financing the earnings-related part of adult education benefit as well as administrative costs. It has also financed the severance pay benefits paid out by the Education and Severance Pay Fund. The Fund also covers the costs of wage security that cannot be recovered from individual employers.

The costs of the Unemployment Insurance Fund are covered with unemployment insurance payments collected from employers and employees as well as revenues from investments. In order to secure its liquidity and to even out the fluctuations in unemployment insurance payments due to economic trends, the Unemployment Insurance Fund has set up a buffer fund. Its maximum value is that corresponding to an unemployment rate of 3.6 %, which in 2002 came to about € 485 million.

The economic trend buffer reached its maximum amount sooner than was originally predicted. The amount of funds in the buffer has exceeded the maximum amount, and unemployment insurance payments have been lowered to reduce the excess. The increase in the total wage sum has also contributed towards lowering unemployment insurance payments.

In 2003, employee's unemployment insurance payment is 0.2 % of wages, while it was 0.7 % in the previous year. The employer's payment has been graduated, so that a lower payment is used for the initial € 840, 940 of the wage sum. In 2003 this lower payment is 0.6 % and for the wage sum exceeding this limit, 2.45 % of wages. The year before, the corresponding employer's payments were 0.7 and 2.7 %.

5.7 Housing subsidies

	2000	2001	2002*	2003*
Expenditure on general housing allowance (€ million)	467	401	413	430
Recipients of general housing allowance on 31 Dec (no. of households)	170 350	158 460	159600	163 000
- of which, families with children	757 40	69 840	69 010	68 300
Expenditure on pensioners' housing allowance (€ million)	227	243	255	265
Recipients of pensioner's housing allowance on 31 Dec	161 549	163 470	164 280	165 100
Expenditure on student housing supplement (€ million)	146	209	220	225
Recipients of student housing supplement on 31 Dec	141 590	150 710	155 100	157 000

*estimate

Housing is one of the basic needs which, when not fulfilled, leads to both direct and long-term social problems. Housing problems are crucial for the appearance of many other problems, but also for their solutions. The housing subsidy system has been forced to react to rapid economic fluctuations. Market trends have caused tremors in housing supply and demand. Even though improved employment is not directly reflected as a smaller demand for housing subsidy, it will improve the situation in the long run, if housing supply is sufficient. As employment and the housing market become stabilised, housing subsidies can be developed better as a part of social policy, taking into account the diversification of the housing market between different population groups and in different parts of the country.

Housing problems focus on the core areas of social protection, but they also have very firm ties to current economic and regional development trends, migration, land use policy and transportation policy. This means that solutions to the problems must also be looked for not only in different social policy sectors, but in the operation of different administrative sectors as well. Managing the situation as a whole and coordination of measures is therefore particularly challenging in this field.

5.7.1 Housing costs have risen faster than other costs

During the 1990s, public support for the housing market was reduced and prices were deregulated and allowed to follow the market. The interest rates of housing loans in the open market have come down, which has led to a situation where the interest rates of publicly funded housing are higher than market interest. Rents continued to rise throughout the 1990s, and the increase was particularly fast between 1996 and 2001, over 4 % per annum. The increase has however slowed down. Between April 2001 and March 2002 the rents of new lease agreements rose by 1.3 %. The fastest rise in rents is still seen in the Helsinki metropolitan area and other centres of growth. In April 2002, the average monthly rent of privately funded flats in the whole country was € 8.21 per square metre, which was € 0.22 (2.75 %) more than the year before. In the Helsinki metropolitan area, average rents were over 50 % higher compared to other parts of the country, and the gap is growing all the time. When the average rent for a privately funded studio flat in Helsinki is € 14.25 per square metre, the corresponding rent in other parts of the country is € 8.14. The average rent for flats of any size in the Helsinki area is € 7.66.

A trend similar to that seen in the case of privately funded rental flats is also in evidence in government-subsidised flats. In April 2002, the average rent for

government-subsidised rental flats in the entire country and in the Helsinki area was € 6.92 and € 7.87 per square metre, respectively. In the course of one year, rents for government-subsidised flats rose by 3.9 %. The imputed initial monthly rent of new government-subsidised flats constructed in the Helsinki region was € 8.46 per square metre, and € 7.55 elsewhere in the country. In addition to the fact that their rents have gone up, tenancies have become increasingly difficult to obtain, particularly in the Helsinki metropolitan area. Only about one in three applicants was able to obtain a government-subsidised rental flat, and in the Helsinki area only in five. In 2002, 216,800 families applied for a government-subsidised rental flat, 59,300 of them in the Helsinki area. In November 2002, 79,300 families were on a waiting list for a rental flat in the whole country, 46,600 in the Helsinki area. While the demand for housing as well as rents in the Helsinki metropolitan area are rising constantly, some area have a problem with unlet rented accommodation and housing development whose maintenance involves considerable costs for the municipality. The shortage of housing in growth centres poses an obstacle to workforce mobility and employment in general, since flats of a reasonable size and price cannot be found where work is available.

After a drop in prices in the early 1990s, the price of owner-occupied accommodation has been rising rapidly since 1995. The rise in price level has been particularly strong in the Helsinki metropolitan area and other centres of growth. In the Helsinki area, prices have gone up over 10 % annually. The nominal prices of flats in old buildings have already exceeded the peak seen at the end of the 1980s. The price trend has been more moderate elsewhere in the country, but it is accelerating in growth centres such as Tampere and Oulu. A flat in the Helsinki area costs on average € 2,140 per square metre. The price gap between the Helsinki area and the rest of Finland has widened; at the moment the price per square mete of flats in the Helsinki area is about twice that elsewhere in the country.

The average interest rate on housing loans continued to decline in 2002. The nominal interest rate on new housing loans was at its highest in 1993, at about 13 %, but last year it had fallen to 4 %. Due to low interest rates and rising housing prices households have been taking out large mortgages, which is why the volume of household mortgages has risen considerably over the past few years, reaching € 30 billion. This exceeds the 1991 level by almost 50 %, and shows an increase of over € 11 billion compared to 1998.

Housing construction was at a much lower level in the 1990s than during the preceding decades. Compared to 50,000 housing units per year constructed previously, annual production is now under 30,000 units. The lowest output was in 1996, when only just over 20,000 units were built. The supply of housing is responding slowly to the growing demand, but new construction is hampered by a shortage of suitable plots and high price level. Construction costs have now risen above the limit for government-subsidised housing, which is why it is not possible to build all the rented housing planned. Housing production has increasingly shifted to valuable owner-occupied housing in growth centres.

Housing costs rose throughout the 1990s, especially in rented accommodation. The earnings of people in low-income brackets have been rising at a much slower rate. After a long period of improvement, homelessness has begun to increase again in recent years. It is estimated that there are already over 10,000 homeless, most of

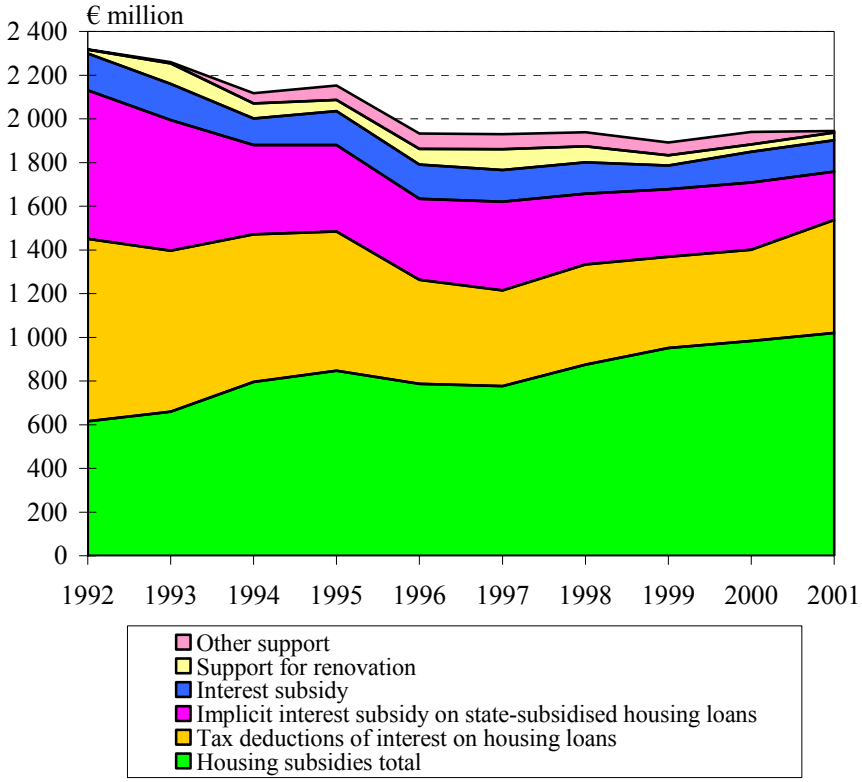
them men, but the number of homeless women and young people is also on the rise, which is a new phenomenon.

5.7.2 Less overall support for housing

Housing and housing construction is supported through direct housing allowance systems, interest support, grants and tax relief. The direct housing allowance system consists of general housing allowance, student housing supplement and pensioners' housing allowance. The forms of interest support are the ASP scheme (government subsidy for first home purchase), government-subsidised housing loans and interest support systems. Direct housing grants focus on certain special groups and on renovation work. The main form of tax relief is the tax deductibility on housing loans.

The overall level of support for housing has remained unaltered, being about € 1.64 billion in 2001. Housing allowance now makes up over half of all support, while its share in the early 1990s was about one fourth (Figure 60). Tax relief has been considerably reduced due to a change in the tax deductibility of mortgage interest in 1993 and the fall in interest rates; the same has happened to interest subsidy. Support for housing construction has fallen slightly, in line with the economic trend, and so has support for renovations. The criteria for receiving housing allowance have been altered and re-focused several times.

Figure 50. Total expenditure on housing subsidies 1991-2000, at year 2000 prices



Source: Ministry of the Environment

5.7.3 Housing subsidies really needed

In 2001, the total expenditure on housing subsidies was € 1.6 billion. 52 % of this was made up of means-tested direct forms of support, 21 % was production support and 27 % was tax deduction of interest on housing loans. The biggest individual form of support among the general allowances was that provided through the tax deductibility of interest on housing loans, while the ASP interest support and some types of renovation support constitute smaller general support systems. In addition to housing allowances, means-tested forms of support include the implicit interest subsidy on government-subsidised housing loans, support for renovation (with the exception of housing corporations), the implicit interest subsidy on government subsidised rented housing and interest subsidy for rental housing production. The central government finances both general, pensioners' and students' housing allowance in full.

The direct forms of housing subsidies for households are subject to means testing. Housing allowance is granted in relation to household income, assets, occupation density and housing costs. The purpose of the allowance is to enable even those on low incomes to attain a reasonable standard of housing. The allowance enables housing costs to be kept at a reasonable proportion of the household's monthly income. Due to the strict means testing, even a very low level of income leads to a cut in housing allowance.

Housing costs are taken into account either as real costs or according to the number of persons in the household, the maximum size of the flat and maximum costs per square metre for the specific region. A basic deductible is deducted from the reasonable housing costs, its size depending on the number of persons in the household, location of housing and household income. Housing allowance is the equivalent of 80 % of reasonable housing costs, minus the deductible. The recipients of housing allowance thus always have to pay some of their housing costs themselves.

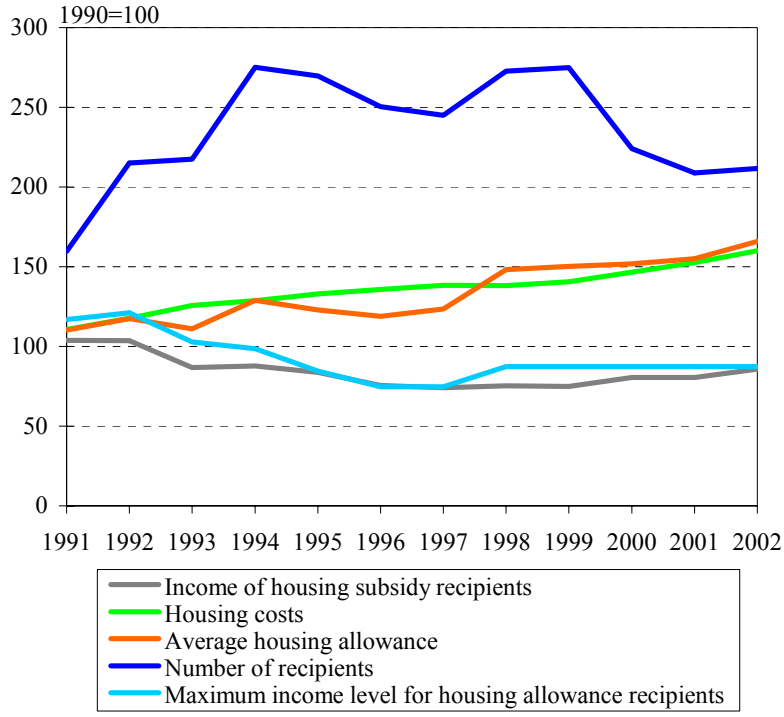
General housing allowance is meant for households on a very low income. The rise in unemployment in the early 1990s caused a considerable rise in the need for housing allowance. Because it became necessary to cut housing allowance expenditure through a tightening of means testing at a time when income levels were falling and rents were rising, the remaining recipients of housing allowance were largely households relying mainly on income security benefits. About 65% of the recipients of general housing allowance are unemployed.

General housing allowance was originally intended as a form of support for families with children, but nowadays they make up only 43 % of recipients. About half of the families with children receiving general housing allowance are single-parent families. In December 2002, a total of 159,600 households received housing allowance averaging € 206 per month. In 1998 and 1999 both the average number of recipients and the average amount of allowance rose slightly, due to a raise in the levels of housing allowance, while in 2000 and 2001 it fell somewhat, especially due to the fact that student couples were transferred to the student housing supplement system. This has raised the proportion of the unemployed as housing allowance recipients, although their actual number has fallen somewhat.

Growing unemployment that became increasingly long-term in nature caused the number of recipients of housing allowance to almost triple in the early 1990s (figure 51). In order to reduce housing allowance expenditure, the income limits for receiving the allowance have been lowered

several times over the years. At the same time, the housing costs of recipients of housing allowance have gone up. The average housing allowance has been increased because the recipients have smaller incomes and their housing costs are higher than before. In order to cover the increasingly high housing costs of recipients with lower incomes, the average housing allowance has been increased. Households with even lower incomes than before are forced to spend an increasing proportion of their income on housing costs. The minimum levels of rent per square metre qualifying for housing allowance were raised as of the beginning of 2002 in order to correspond better to actual rent levels. As a result of the reform the number of cases exceeding the approved upper limit of housing costs fell by about 10 %, but it still remains high. The rents of about half of housing allowance recipients living in privately funded housing exceed the approved maximum amount of rent. The number of people living in government-subsidised rental housing whose rent exceeds the maximum is about the same throughout the country, about one third of housing allowance recipients. In the Helsinki metropolitan area, the share of people living in privately funded rented flat whose rent exceeds the maximum is still over 70 %. At the end of last year, the average monthly rent of housing subsidy recipients was € 7.29 and € 7.54 per square metre in government-subsidised and privately funded rental housing, respectively. The rents of housing subsidy recipients rose by 5.4 % and 4.7 % in government-subsidised and privately funded rental housing, respectively.

Figure 51. Trends in housing subsidies 1990-2002



Pensioners and students have separate housing subsidy systems, which differ in some details from general housing allowance. Pensioners' housing allowance is directly tied to pensions, and its key aim is to ensure that pensioners can continue to live in the familiar environment of their own homes instead of having to move into an institution. Because of this the conditions for type of dwelling are much less strict for pensioners' housing allowance than they are for general housing allowance. The key aspect of further development of the system is its relationship with services for the elderly. Last year there were 166,000 recipients of pensioners' housing allowance, receiving an average € 128 per month.

Student housing supplement is available to students living in rented accommodation, with the exception of families and students living in accommodation they own. The student housing supplement is part of the system of financial aid for students, and its level has from the beginning been tied to the level of rents in student housing. The rent norm has not been adjusted since 1995. At the end of 2002, there were 155,000 recipients of student housing allowance averaging € 155 per month. The student housing supplement is part of the financial aid for students, and its means testing is based on the principles applied in granting financial aid to students. The percentage used, 80 %, is the same that is applied in general housing allowance. Student housing allowance is only paid out during months of study, which is only a small minority of students receive the allowance during the summer.

The housing allowance system has had to respond to rapid economic change. There has been fairly strong fluctuation in the supply and demand for housing. Although the higher employment rate is not directly reflected in the need for housing allowance, it will improve the situation in the long term, if the supply of housing is adequate. As the employment situation and the housing market stabilise, it will be easier to develop housing allowance as part of social policy by taking into account the different housing markets for various population groups and regions.

5.7.5 Housing costs and poverty

Variation in housing costs makes it difficult to interpret poverty indicators and may give rise to ambiguity, e.g. when comparing different regions. A low-income household may be entitled to housing allowance and supplementary social assistance due to high housing costs. As a result, the income of the household exceeds the poverty line. The housing costs of another low-income household may be significantly lower, so that the level of housing allowance and social assistance is also low, or they are not granted at all. This way the income of that household may fall below the poverty line. Since housing allowance and social assistance only cover part of the housing costs, the net income after housing costs of the "poor" household may be higher than that of the household above the poverty line with high housing costs.

Defining housing costs of people living in owner-occupied dwellings is particularly difficult. Mortgage repayments constitute a major expense for many households with housing loans, and this money is not available for other consumption. On the other hand, mortgage repayments may be seen as a form of saving, which adds to the net wealth of the household. In addition, households may choose between mortgages of differing duration, which affects the size of annual payments.

If relative poverty is calculated on the basis of net income after the deduction of housing costs instead of on the basis of disposable income, there is an over two-

fold rise in relative poverty rate. Whether mortgage repayments are included in housing costs or not has surprisingly little effect on relative poverty rate after housing costs. This is largely due to the fact that taking mortgage payments into account also lowers the poverty line. As a result, the relative poverty rate of e.g. single-parent households is lower when mortgage repayments are included in housing costs. In contrast to other families with children, most single-parent households live in rented housing (Table 8).

Taking housing costs into account also changes the relative status between regions. According to the traditional definition of income, poverty rate is highest in rural municipalities and lowest in the Helsinki metropolitan area. When measured by net income after housing costs have been deducted, the poverty rate is still the lowest in the Helsinki area, while the highest poverty rate is seen other urban regions. At the same time, the relative differences between regions are reduced.

Table 8. Poverty after housing costs in 2000 using different definitions of housing costs, as a proportion of population according to household type, %

	Disposable income	Net income after deduction of housing costs	
		No mortgage repayments	Including mortgage repayments
All households	4.0	8.9	8.5
Single parent households	9.1	26.4	21.7
Couple, youngest child under 7	6.2	10.1	10.5
Couple, youngest child 7-17	2.7	4.2	4.2
Elderly household (over 65)	1.7	6.2	5.1
Childless couple (under 30)	7.0	15.1	12.5
Childless couple (30 - 64)	0.4	2.6	2.6
One-person household (under 30)	17.9	33.4	32.0
One-person household (30 - 64)	4.4	17.5	16.8
Other households	1.5	2.7	3.4

Poverty line after deduction of housing costs: 50 % of disposable median income calculated per consumption unit after deduction of housing costs. The concept of income after housing costs does not include imputed income from owner-occupied dwellings. The figures should not be compared to the figures describing relative poverty after housing costs published in the previous publication (Trends in Social Protection 2002) as they contained errors.

5.8 Social assistance

	2000	2001	2002*	2003*
Social assistance expenditure (€ million) (net)	395	429	450	470
% of social protection expenditure	1.2	1.2	1.2	1.2
% of GDP	0.3	0.3	0.3	0.3
Households receiving social assistance during the year	271 700	264 100	266 000	267 000
Individuals receiving social assistance during the year	454 350	443 200	444 000	445 500

*estimate

Social assistance is a last-resort form of economic assistance used in social protection. Its purpose is to ensure the right to a reasonable level of income to all those unable to secure the protection guaranteeing a life worthy of a human being. According to the Act of Social Assistance, the purpose of social assistance is to promote independent coping, besides securing a reasonable level of income to families and individuals. In practice, social assistance is usually granted on the basis of a social assistance calculation charting the applicant's expenses qualifying for social assistance, and the income and assets at their disposal. The basic amount of social assistance increases at the same rate as the national basic pension index. As of the beginning of 2003, the basic amount rose by 1.2 %. The basic amount of a single parent is € 374.92 and € 358.79 in first and second category municipalities, respectively.

There have been no significant changes in the number of social assistance recipients in recent years, but in 2001 the expenditure on this category started going up again. The situation of people relying on social assistance for prolonged periods of time has not improved. The long-term unemployed must increasingly rely on last-resort social assistance. The aim of social assistance reforms has been to encourage the acceptance of work and to take better into account the need for added support by increasing the amount of preventive social assistance.

5.8.1 The number of social assistance recipients has remained nearly unaltered

The number of households receiving social assistance was almost doubled in the early part of the 1990s, but since 1997 their number has gradually decreased. Compared to 1990 the number of recipients still remains relatively high, however. [8]

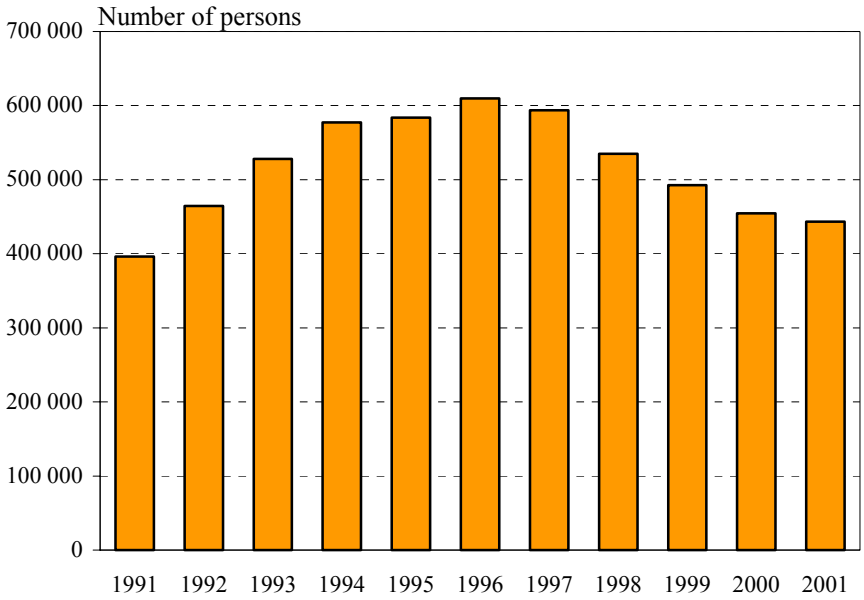
The number of households receiving social assistance continued to decline somewhat (2.8 %) in 2001. The number of people receiving social assistance was slightly lower than the year before. The number of social assistance recipients declined somewhat in the entire country, with the exception of Uusimaa, where the number increased by 1.6 % compared with the previous year. The biggest relative fall in the number of social assistance recipients was seen in Päijät-Häme. 9.5 % of all households received social assistance.

The number of children with families among social assistance recipients starting to increase slightly in 2001, as did the relative proportion of single parents. In 2001, the biggest reduction was seen in the number of childless couples receiving social assistance.

[8] The number of social assistance recipients is affected by the changes to the conditions for granting the assistance. With the 1998 reform of the Social Assistance Act, 7 % of necessary housing costs were in included in he costs to be covered by the basic amount of social assistance.

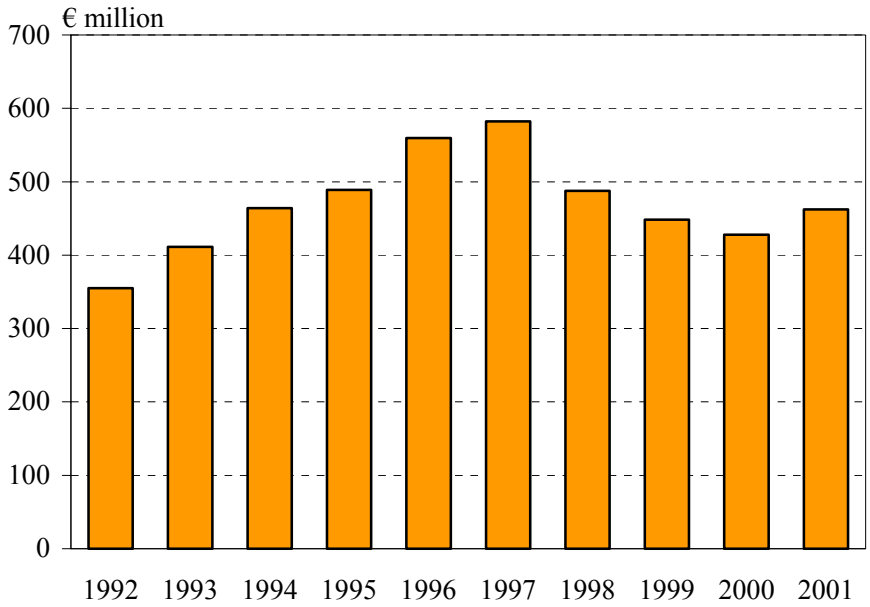
During the first half of 2002 the number of households receiving social assistance remained approximately on the same level as the year before. The number of households receiving social assistance was reduced somewhat in 11 provinces and remained unaltered in two, whereas seven provinces showed growth, with the biggest relative increase in Uusimaa and Åland.

Figure 52. Social assistance recipients annually



The improvement of the general employment situation has not been reflected as a corresponding fall in social assistance expenditure, although over half of assistance recipients are unemployed. The recipients of social assistance have not been the primary target of the growing demand in the labour market. Total expenditure on social assistance grew by 6 % in the early part of 2002 compared to the year before, because the amount of assistance per household increased from that of the previous year. The expenditure grew most in Uusimaa, Ostrobothnia and Åland. In the Helsinki metropolitan region, social assistance expenditure continued to increase for the second year in a row. High housing costs and growing medicine and health costs contributed to the increase in social assistance costs in the Helsinki area. Many low-paid employees with a part-time or temporary job often have to resort to social assistance as well. An increasing proportion of social assistance is paid out to unemployed persons with no unemployment security.

Figure 53. Total expenditure on social assistance 1992–2001, FIM million at 2000 price level



5.8.2 Increased need for long-term social assistance

The risk for exclusion increases significantly as economic problems are prolonged. The average time of reliance on social assistance has grown in recent years. In 2001 it was 5.7 months, while in 1990 some 12 % of recipients received assistance almost throughout the year. In 1997 the figure had risen close to 25 %. After this there was a slight downward trend, but in recent years the proportion of those receiving social assistance almost throughout the year has continued to grow again. In 2001 long-term recipients comprised 25.6 % of all social assistance recipients, which was nearly 67,000 households. Long-term social assistance (10-12 months per year) was most commonly paid out to single men, families with children with two providers and single fathers. The proportion of long-term clients is clearly higher in urban municipalities compared to rural ones.

5.8.3 Social assistance as a form of compensation for low income

The fact that primary benefit forms, mainly basic unemployment allowance, must to a large extent be supplemented by social assistance has been seen as structural problem of the social assistance system. According to data gathered on households receiving social assistance in November 2001, the proportion of households relying on labour market support was 48.8 %. Over half of the households receiving social assistance also received housing allowance. Especially in large cities, it has been necessary to accept higher costs of housing as qualifying for social assistance than the ones used as basis for housing allowance, because the maximum housing costs qualifying for housing allowance are lagging behind real costs. According to statistics, 9.5 % of social assistance recipients were employed in November 2001, while the proportion of those who were employed was 60.6 % among all those aged 15-74. The unemployment rate of working-age people among social assistance recipients was as high as 85.9 %.

5.8.4 Increase in preventive social assistance

According to the principles of the Nordic welfare state, public support systems should function in a way pre-empting the need to seek help from unofficial sources. It is a crucial weakness of the present social assistance system that it cannot take the assistance recipient's actual situation and subsequent support need into account flexibly enough.

The amendment to the Act on Social Assistance that entered into force in April 2001 widened the scope of preventive social assistance. Its aim is to promote security and independent coping of individuals and families, and to prevent exclusion and long-term reliance on social assistance. The preventive assistance can be granted for paying rent dues, for measures aimed at activating the recipient, and to alleviate the effects of overindebtedness or a sudden deterioration in the financial situation. It can be used to prevent people from being driven to a situation where they would have to rely on long-term social assistance.

In 2001, preventive social assistance was granted to a total of 17,081 households and 38,452 individuals. 6.5 % of the households and 8.7 % of the individuals receiving social assistance received preventive assistance. The use of preventive assistance increased significantly, over 60 % compared with the previous year. A total of € 7.4 million was used on preventive social assistance, while in 1999 the corresponding sum was about € 4.2 million.

5.8.5 Coordination of social assistance and earned income

A three-year experiment aimed at increasing incentives to work will be implemented, in which low earned income would not immediately reduce the amount of social assistance. In the proposal approved by the Parliament on the temporary amendment of the Act on Social Assistance, a minimum of 20 % of the earned income of the person or family applying of social assistance would not be taken into account when granting social assistance. However, the amount of earned income not taken into account could not exceed € 100 per month. The amendment is in force between 1 April 2002 and 31 March 2005. The experiment will increase municipal social assistance expenditure, but it will also reduce government expenditure on housing allowance and increase municipal tax revenue. The National Research and Development Centre for Welfare and Health is currently conducting a study on the results of the experiment. According to preliminary results of interviews, the use of the coordination of social assistance and earned is so far not very widespread. There is not yet enough awareness of the reform in municipalities.

5.8.6 The financing of social assistance

The municipalities meet all their social assistance expenditure, but they do receive a government grant to finance their social welfare and health care services. In 2002 the grant covered 25.36 % of the costs of municipal social welfare and health care services. In 2001 the government grant is somewhat higher, or 27.01 % of the calculated running costs of municipal social welfare and health care.

6. Prevention and treatment of exclusion

During summer 2003, the national action plan focusing on the prevention of poverty and exclusion for 2003-2005 will be made available for the EU. The drafting of the action plan is closely linked to the contents and areas of emphasis of the cabinet programme. Measures focusing on exclusion issues are also included in the proposal of the social welfare development programme as well as the guidelines targeting the status of children, young people and families.

Exclusion refers to accumulated social problems combining long-term or repeated unemployment, problems with income and life management as well as exclusion from social participation. Exclusion may be connected to illness or disability, deviant behaviour, criminality and drug abuse. In addition to individual exclusion, exclusion of groups of people or geographical areas can also be looked at. No single problem leads to exclusion by itself, it is a question of accumulation of problems and the forming of a vicious cycle that feeds itself. The field of problems related to exclusion are thus looked at in many parts of this publication. This section focuses on some important issues, while poverty is discussed in Chapter 7.

6.1 Exclusion and the factors behind it

A job that guarantees income, a good living environment, good housing, services nearby and a social network that promotes independent coping form the foundation of normal participation and social inclusion. These everyday structures and practices are supported by universal public services and income transfers. Targeted special measures and programmes are needed to put an end to particularly difficult cases of deepening exclusion. Experience from the Nordic welfare state shows that the prevention of exclusion must be seen as an integral part of general social policy. The responsibility for prevention does not lie solely with the central government, but also with communities and businesses, NGOs and labour-market organisations.

Exclusion is a relatively new concept; previously the same phenomenon was referred to using the terms ”poverty” and ”disadvantaged”. Exclusion does mean nearly the same thing, but it highlights the social aspect of being poor and disadvantaged: inclusion and participation in community and the society is insufficient. Insufficient participation and inclusion lead to deterioration of the concept of citizenship, which means that political institutions may also become endangered. Inclusion and participation increase the social capital of the society. Participation is integrally linked to competence in a broad sense, i.e. human capital and the preconditions for increasing it. This way exclusion is very closely related to the job market.

Structural unemployment is often the factor behind large groups of people being excluded. The supply and demand for labour are not in balance with regard to various factors. The problems of making the supply and demand of labour meet may be related to the vocational skills and competence of labour, diversified regional development in the job market, the relationship between labour costs and work productivity and the economic incentives of work. Structural unemployment is reflected as long-term or repeated periods

of unemployment, and the inability of labour policy measures to promote the employment of the unemployed in the open job market. In 2002, the category of poorly employable people comprised on average nearly 174,000 people. Some long-term unemployment is covert, i.e. hidden unemployment outside the labour force.

All dimensions of exclusion are represented in structural unemployment. Attempts have been made to abolish and prevent structural unemployment with labour policy, educational and social policy measures, but its abolishment has proved very difficult despite the various labour policy measure that have been applied. "Structures" usually refers to the method of production and its impact on the social structure, but structures are also connected to various institutions and social cohesion. This means that structural unemployment affects the society as a whole, and accordingly, its abolishment calls for a versatile battery of means.

If our social assistance and service systems function efficiently, exclusion should not exist in principle, but people do seem to fall through the security networks nevertheless. A wide selection of services is available today for people that are the hardest to employ. The problem is that services are often provided as fixed-term experiments or with project funding. Supporting the employment in the open job market of those who are most poorly employable calls for planning of entire service systems and support solutions of longer than average duration. The challenge is to personalise services and tailor them according to the client's need. Instead of providing passive support, the aim is to increase the provision of so-called active alternatives.

As uncertainty grows, the risk of exclusion has expanded so that an increasing proportion of the population is affected. Even a good education is no longer a guarantee for a good job until retirement age. More emphasis must be placed on increasing productivity and efficiency so that we do not run the risk of exclusion as a nation in international competition. Not everyone is able to keep up with the increasing demands for efficiency, however. This means that even those not originally at risk due to disability, illness or asocial behaviour may be at risk of exclusion.

6.2 National Action Plans for Social Inclusion as part of the common goals of the EU

At the European Councils in Lisbon and Santa Maria da Feira in 2000, EU Member States recognised social exclusion and combating poverty as key areas of the reform of the European social model. As a result of the Councils' decisions, joint goals concerning the prevention of poverty and exclusion were approved in October 2000 by the Council of the European Union and ratified at the European Council at Nice in December 2000. The so-called open method of coordination was adopted as the method of work. It is based on the exchange of information on the systems used in different countries, definition of joint guidelines and objectives, improvement of comparability of development by developing quantitative and qualitative indicators and the dissemination of good practices. The objectives of cooperation aimed at combating poverty and social exclusion are as follows:

- to facilitate participation in employment and guarantee access by all to resources, rights, goods and services
- to prevent the risk of exclusion
- to help the most vulnerable
- to increase and promote cooperation between all actors

The first National Action Plans were drawn up in 2001, and they subsequently formed the basis for the Joint Report on social inclusion of the EU Council and Commission. As a result of the work of the Social Protection Committee, the Council on employment, social policy, health and consumer affairs approved in December 2002 adjusted joint objectives for the second round of Action Plans against poverty and social exclusion. The new plans will be drawn up for the period 2003-2005, and the aim is to draft a new Joint Report on social inclusion for the 2004 European Council.

According to the Council's recommendations, the prevention of poverty and social exclusion should be integrated in various policies on national and Community level. The differences between Member States are seen as differences in focus and different solutions in accordance with the conditions prevailing in each Member State. In operation, the principle of secondarity is followed. The prevention of social exclusion is primarily the responsibility of Member States and their national, regional and local authorities and their respective operators, such as labour market organisations and NGOs. Cooperation between Member States aimed at combating poverty and exclusion must not hinder the smooth operation of national social policy systems.

The joint objectives agreed on in Nice have proved in practice to be functional. No major changes were made to the joint goals for the second round of National Action Plans. New areas of emphasis include more precise definition of the objective of reducing the number of people at risk of poverty and social exclusion, taking the impact of gender into account in exclusion as well as attention on the risk for poverty and exclusion as a result of immigration. The next National action Plans will be drafted by the end of July 2003.

Finland's approach in the prevention of poverty and exclusion is based on the operating principles of the Nordic welfare state, which include universal services and social protection. The basis of the prevention of exclusion comprises the strengthening of the structures of social welfare policy and development of practices that cross boundaries between various administrative sectors. In the strategy aimed at preventing exclusion, it is of crucial importance to support the establishment of structures and practices in the daily lives of people that as such help prevent social exclusion.

6.3 Improving the preconditions for employment and promoting independent coping

6.3.1 Active social policy and rehabilitative work activities

In connection with the implementation of active social policy measure, changes were made in the Act on Social Assistance, with the aim of increasing the degree of incentive of measures promoting employment. Persons applying for social assistance are obliged to register as job seekers at the employment agency, unless they are unable to accept work due to reasons defined by law. If a person refuses to accept an offered job or to participate in a labour policy activation measure activity, the result can be a reduction of the basic amount of social assistance. The same is true for refusing to draw up an activation plan, and in the case of under 25s, for refusing to participate in rehabilitative work activities.

The Act on Rehabilitative Work Activities came into force on 1 September 2001. This provided new opportunities for the long-

term unemployed to help them find work in the open job market. Under the Act, municipalities and job centres are obliged to cooperate in drawing up an activation plan and service package tailored to the needs of each client. Rehabilitating work activities must be arranged in cases where, in the opinion of the employment centre, no work or employment administration measures promoting employment can be offered to the client within three months after drawing up the activation plan. Rehabilitating work activities are a last-resort measure aimed at breaking long-term unemployment cycles.

According to labour administration registers, at the end of 2002 there were some 106,500 unemployed persons who fulfilled the activation criteria. The proportion of young people under 25 has been clearly lower than predicted. By the end of 2002, activation plans had only been drawn up for about a third of the unemployed in this group, whereas nearly all of the young people fulfilling the criteria had had one drawn up. The implementation of the Act has in many places been slowed down by the meagre resources allocated for this purpose. About 3,300, or 10 %, of those taking part in activation plans have started rehabilitating work activities. Those taking part in rehabilitating work activities are paid an added support of € 7 per day as activation allowance, in addition to which they are also eligible to social assistance to cover their transportation costs.

The National Research and Development Centre for Welfare and Health and the Rehabilitation Foundation have evaluated the impact of activation measures on the labour market status and welfare of the young and long-term unemployed. According to an interim report published on 16 December 2002, clients' experiences of activation plans and participation in rehabilitating work activities are for the most part positive. Activation measures promoted employment and access to labour policy measures of the unemployed, while reliance on social protection diminished. Half of those who took part in the survey were either working or participated in activation measures of some kind about six months after an activation plan had been drawn up. Eight per cent had found employment in the open job market. The final report of the evaluation will be completed by the end of 2003.

6.3.2 National joint service experiment

In 2002 a two-year national joint service experiment was launched, aimed at promoting the employment, life management skills and rehabilitation of people who had been unemployed for a long time. The experiment covers 18 cities. The services of at least two authorities are available at the joint service info centres that have been set up. More than one joint service centre representing municipalities, employment administration and Kela may operate in the same town. The aim is to form comprehensive service units, comprising employment services, labour policy measures, municipal social welfare and health care services as well as rehabilitation services provided by Kela. The experiment promotes joint responsibility for the client on the part of authorities. By coordinating different activities, the aim is to improve results and the quality of client service. If successful, the experiment offers an opportunity to break off long-term unemployment and prevent exclusion. The municipalities taking part in the experiment must provide the same amount of financing as they receive in the form of a government grant. There are about 200 officials working in the joint service centres, and in 2002 they served about 6,000 clients. The experiment is set to last until the end of 2003.

6.3.3 The job hunter experiment

In 2002, a three-year job-hunter experiment was launched in the area of the eight largest employment offices. The aim of the experiment is to find out whether jobs can be found in the open market by using the services of job seekers to those unemployed who are at risk of prolonged unemployed or who are already long-term unemployed. The job hunter is paid a reward for finding employment for the client in the open market lasting for at least six months. Getting the experiment started has proved slow. The continuation and contents of the experiment will be assessed in autumn 2003.

6.3.4 Social enterprises

Preparation of a new Act on Social Enterprises has also been launched to improve the employment possibilities of people with reduced working capacity. Social enterprises have not been defined in Finnish legislation and no separate support systems exist for them. Social entrepreneurship is still being supported as part of the normal service and support system aimed at enterprises in general. In this context, the term social enterprise is used to denote an enterprise operating in the open job market where a significant share of the employees are disabled or otherwise disadvantaged. The possibilities of promoting social entrepreneurship have been charted by a working group, whose report was published in spring 2002. According to the estimate of VATES Foundation, one of the support organisations of social entrepreneurship, social enterprise is the right employment alternative for 20-30 % of the poorly employable. The experiences gained from the operation of new cooperatives, work cooperatives in particular, have also been cited as an example when discussing the promotion of social entrepreneurship.

6.3.5 Evaluating rehabilitation potential and pension eligibility of the long-tern unemployed

By a Parliamentary decision, as of the beginning of 2001 employment offices started to chart the actual situation, working capacity and pension eligibility of long term unemployed who have been away from working life for a long time and who are in practice incapable of work. The clients are interviewed and possible medical certificates and reports are procured by the employment office. The number of people whose pension eligibility is under study is estimated at 8,000-12,000, but the number of people who are in practice disabled may be higher. Operation in this field picked up during 2002. By the end of 2002, the pension eligibility of some 5,800 clients was charted. At that stage, pension had been granted to about 1,250 clients.

6.4 Special immigrants' allowance

Compared to the rest of the population, immigrants are at greater risk of social exclusion. At the end of 2002, 6,800 integration plans had been drawn up in accordance with the Integration Act. The integration plan must comprise as many measures supporting the integration of each immigrant as possible, which calls for cooperation between different authorities and organisations. In the 2003 state budget, more resources have been allocated to labour administration immigrant education. As a result of a more active approach, it has become easier for immigrants to gain access to the open job market and activation measures. A number of projects offering individually tailored services have also been launched to improve the status of immigrants with a weak position in the job market.

The Act on Special Immigrants' Allowance (1192/2002) was enacted in order to provide permanent income security to pension-age returning immigrants and others in a similar situation. This is a new economic form of support securing income during old age or disability for those immigrants who would otherwise have to resort to continuous social assistance. The special allowance is a need-based social welfare benefit granted by Kela, and its amount is adjusted by Kela on an annual basis. The maximum amount of the special immigrants' allowance is the same as full national pension. If a person is granted the special immigrants' allowance, he or she may still be eligible for social assistance. Conditions that must be fulfilled for receiving the special allowance are the age of 65 years or more, or disability. In addition, the recipient must also have resided in Finland without interruptions for a minimum of five years before onset of the special allowance. The allowance is not paid to other countries. There are an estimated 3,700 recipients of the special allowance in 2003. The reform will enter into force on 1 October 2003.

6.5 Social credit now statutory

Social credit became statutory as of 1 January 2003. People in grave economic difficulties may seek social credit from the municipality. The aim of social credit is to prevent economic exclusion and over-indebtedness and to promote independent coping. Social credit can be extended to persons who due to low income and small assets have no other possibility to obtain credit on reasonable terms and who have the ability to pay back the credit granted.

During the social credit experiment, 60 % of all social credit applicants had received social assistance before and 22 % at the time of being granted the credit. This is an indication that individuals and families receiving social assistance have needs that cannot be covered by social assistance. Social credit is one possibility of improving the situation of individuals and families with low income and small assets in cases when there is enough leeway for them to pay back the debt. Social credit is an integral part of municipal social welfare. Municipalities can provide social credits to the extent they decide on, either independently or as joint regional ventures. Legislation ensures that as municipalities implement social credit, the same principles are applied throughout the country. The maximum interest on social credit is the reference rate referred to in the Interest Act. There has been increasing interest towards social credit on the part of municipalities.

6.6 Other risks for exclusion

6.6.1 Homelessness

The decline in the number of homeless came to a halt in the mid-1990s, after which the situation became gradually worse as a result of migration and a tighter rental housing market. There is a particular lack of reasonably priced small housing units. Over half of those seeking rental accommodation are one-person households, whereas less than one fourth of government-subsidised and interest-subsidised rental flats are studio flats.

Middle-aged med with low income and no family have the greatest risk of becoming homeless, and they constitute the overwhelming majority of the homeless. The homelessness of families and those staying temporarily with relatives or friends is of shorter duration. Hostel accommodation or overnight shelters are more common in some cities. Less than 20 % of the homeless are women and young people, but there are great variations between municipalities. People looking for accommodation who have been released from institutions as well as those covered

by social and health care community care are particularly at risk of becoming homeless. Among ex-convicts, homelessness makes it more difficult to detach oneself from a criminal way of life.

It is the task of municipal housing authorities to provide adequate housing for the homeless. Supported and service housing is provided jointly with the municipal housing section for those who are in great need of social welfare services.

The programmes of the Ministry of the Environment as well as the Ministry of Social Affairs and Health targeting homelessness aim at providing an extra 1,000 homes for the homeless annually in the entire country as well as cities in the capital region. The reduction of homelessness is also included in the national Action Plan against poverty and exclusion for 2001-2003.

Table 9. The number of homeless in November 1996-2001

	1996	**1997**	**1998**	**1999**	**2000**	**2001**
1. Outside, in overnight shelters	508	421	454	410	451	563
2. Hostel accommodation	1216	1296	1319	1340	1339	1598
3. Institutions	1670	1946	1873	1931	1998	1394
4. Ex-convicts with no accommodation	441	506	474	456	417	686
5. Staying temporarily with relatives and friends	5777	5645	5874	5851	5794	5723
Total single homeless persons	**9612**	**9814**	**9994**	**9988**	**9999**	**9964**
Women, %	19	26	20	18	18	17
Men, %	81	74	80	82	82	83
Young people under 25, %	16	22	20	18	18	17
Homeless families	**361**	**600**	**818**	**777**	**783**	**782**

Source: Housing Fund of Finland 2002, municipal housing market surveys

6.6.2 Learning disabilities and special education

One of the aims of special education is to prevent exclusion. The number of pupils in comprehensive schools receiving special education has increased at the same time as data gathering has become more precise since the 1980s. The need for special education and support services has clearly increased. Factors contributing to this trend include improved methods of diagnosing learning disabilities, diversified and individualised teaching methods and education to all teachers on learning disabilities. The size of groups taught in comprehensive schools has grown, which has led to the transfer of pupils to special education and the establishment of smaller classes. The Basic Education Act of 1998 defines in more detail than before the students' right, free of charge, to support services necessary to enable them to participate in basic education. The law also contains regulations on the school's possibilities to provide rehabilitation, development, guidance and support services.

At the beginning of the 2001 autumn term one in five boys and one in ten girls in comprehensive schools received part-time special education in connection with general education. Their total number was 95,400, or 16 % of all pupils in comprehensive school. The most common reason for part-time special education in the lower grades was difficulties in writing

or a speech defect. In the uppermost grades the most common reasons stated were difficulties in learning a foreign language, adaptation problems and difficulties in learning mathematics.

During the autumn term of 2001 30,800 pupils, or 5.2 % of all pupils in comprehensive schools were taken or transferred to special education. They had an adapted curriculum in one or more subject. The reason for taking or transferring children to special education was delayed development in one out of three cases. The second most common motivation given was severe mental handicap.

6.6.3 Drop-out from education

The risk of permanent exclusion from the job market of those with no vocational education is particularly high among younger age groups. The number of students who fail to fulfil their obligatory education, i.e. who drop out of school is about 200 each year. In an international comparison, the number of students dropping out of basic education is low in Finland, whereas the number of students leaving vocational or upper secondary school without completing their studies is higher. In 2001, 13.2 % of students in secondary vocational schools and 11.7 % of students in upper secondary schools broke off their studies leading to a certificate or diploma. A total of 4.3 % of students in upper secondary schools dropped out of school altogether. In order to prevent the risk of exclusion, it has been proposed that student counselling and guidance be developed and provided more extensively in different types of educational institutions. The importance of the provision of morning and afternoon activities for young schoolchildren and the right to child care leave for their parents have been particularly emphasised as preventive measures.

Workshops for young people have yielded good results and it has been proposed that the experiment be made permanent. The aim of workshops for the young has been to improve the vocational skills and competence of young people at risk of unemployment with the aid of practical work training.

6.6.4 Substance abusers

Alcohol and drugs are often part of the many problems of people at serious risk of exclusion. The use of alcohol started to increase towards the end of the 1990s. There are an estimated 250,000 – 500,000 heavy users of alcohol, which is about 6 – 12 % of the adult population. The number of alcohol and drug related deaths is increasing. About 60 % of the social welfare clients with substance abuse problems still use alcohol, but the proportion of drug and mixed substance abusers is increasing. Experimental drug use increased steadily throughout the 1990s. In 2000, 19.5 % out of a sample of 1,000 conscripts reported having experimented with drugs at some time. The use of opioids also increased throughout the 1990s. The use of hard drugs, in Finnish circumstances particularly of amphetamine, is often related to exclusion and being socially disadvantaged.

The 1990s were a time of cutbacks in special substance abuse services, particularly institutional care. Between 1995 and 2000, the fixed net costs of substance abuse treatment in the country as a whole rose by almost a fifth (18.3 %). The greatest increase was seen in urban municipalities, particularly the metropolitan Helsinki area. In future, a significantly greater demand for services within substance abuse treatment must be provided for. According to a survey, the provision of special substance abuse treatment services has been able to reduce criminality and substance-related illness.

The money allocate to substance abuse treatment has come back in the form of savings in health care costs and reduction in drunken driving and property offences.

People with drug problems are often socially very disadvantaged, and many users of drug treatment services have various socio-economic problems. These problems are seen as homelessness, unemployment, poor education and widespread mixed substance abuse. The development of substance abuse services has focused particularly on drug abuser treatment issues. There is a fear the alcohol abusers may have to rely on weakening services, or even fall outside the scope of any help altogether. A new national alcohol policy programme is being drafted for 2003-2006, aimed at preparing for the impending changes in the alcohol policy environment to be implemented in 2004 and at boosting the Finnish alcohol policy based on national health.

6.6.5 Prevention of criminality

People who commit crimes are often socially excluded or at risk of exclusion. Crime prevention is implemented as cooperation that cuts across administrative boundaries. In addition to the central government, also municipalities, the business sector and the third sector participate in the cooperation. The operation is primarily guided by the National Council of Crime Prevention operating in connection with the Criminal Policy Department of the Ministry of Justice. The adaptation to a life of no crime of people who have been subjected to crime sanctions calls for special measures. Projects aimed at integration into society of offenders have been implemented e.g. by prisons, regional probation offices, municipalities and educational institutions. The fact that the projects have been separate as well lacking continuity has posed problems. The aim of the nationwide joint project supporting offenders' crime-free lifestyle (YREH) is to develop operating models based on regional cooperation.

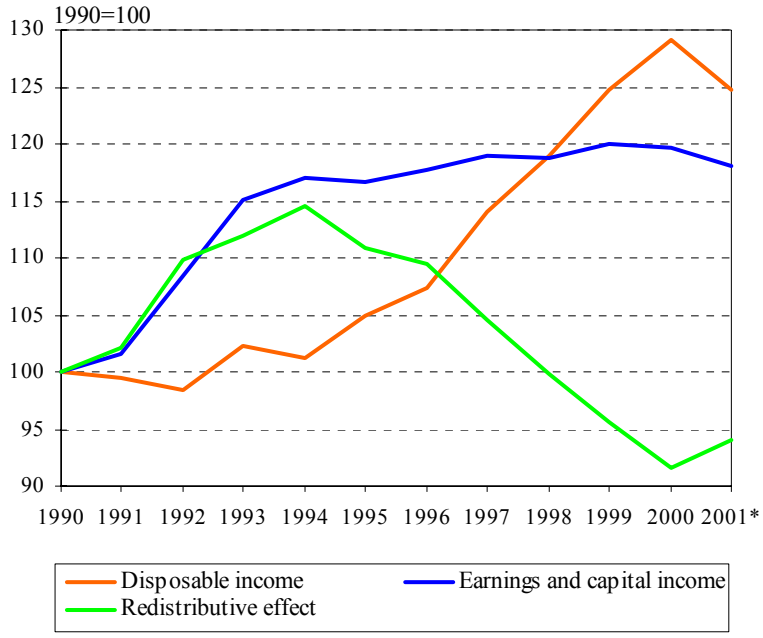
6.7 Early intervention

Early intervention plays a key role in the prevention of exclusion. The early intervention programme entitled Varpu is a project coordinated by the Ministry of Social Affairs and Health, in which central administrative sectors as well as organisations operating in the fields of child welfare, substance abuse and mental health participate. The project is implemented between 2001 and 2004. The aim is to improve the ability of the service system to intervene at an early stage in the problems of children, young people and families and help them cope. Early intervention and support are encouraged, both with regard to services and in people's everyday lives. Practical early interventions methods are compiled and disseminated jointly by the National Research and Development Centre for Welfare and Health and the Central Union for Child Welfare in Finland. The key objective is to make the development work and its results an integral part of social welfare and healthcare work on grass-roots level.

7. Income transfers and income distribution

The rise in income differentials between households that had continued since the mid-1990s came to an end in 2001. The increasing income differentials were caused particularly by the strong growth in capital income. However, in 2001 the capital income of households diminished clearly, which was seen as a reduction in income differentials. The income-equalising effect of income transfers and taxation increased slightly in 2001, which also contributed towards smaller income differentials. Despite the slight reduction in income differentials, they were clearly larger in 2001 than in the early 1990s (Figure 54).

Figure 54. Trends in income differentials and redistributive effect of income transfers and taxation in 1990-2001



Income differentials: Gini coefficient; the higher the figure, the greater the income differentials, 1990=100. Income/OECD consumption unit.
Redistributive effect (Kakwani): reduction of income differentials by income transfers received and paid (taxes) 1990=100.

7.1 Uneven income trend

The brisk economic growth during the last few years has not been equally reflected in the income of all households. The income trend has been most favourable in the upper income brackets. The annual real disposable income in the top tenth rose by an average 8 % between 1996-2000, while the increase in real income in the lowest tenth was on average 1 % per year. In 2001, there was a change in this trend due to slower economic growth. The capital gains received by households shrank by over 50 % compared to the previous year, as the sharp downward trend in the stock market that had began the year before continued. As a result, the average disposable income in the top tenth was clearly reduced in 2001 (-3.6 %). The weak

income trend continued among the lowest tenth, as their real income remained virtually unaltered (0.3 %). The average real income of all households increased slightly (1.2 %).

7.2 Great differences in aims and distribution of income transfers

Income equalisation between low and high-income earners is often seen as the main goal of income transfers. In addition to this, income transfers equalise the income differences between different family types. However, a primary objective of income transfers is also to equalise the income of individuals during their lifetime, in which case the purpose is to compensate for loss of income due to various risk factors. The level of benefits and the size of insurance contributions are in such cases more or less dependent on each other. In recent years, there has been an attempt to emphasise this association between insurance contributions and benefits. In practice, the varying goals of different income transfers may well be merged in the same benefit. Due to the varying aims of income transfers there are also great differences in how they are distributed across different income brackets (Table 10).

Table 10. Distribution of certain income transfers by income quintiles in 2000, % of benefit expenditure

	I	II	III	IV	V	Sum total
National basic pensions and their supplements (excl. housing allowance))	33.1	34.8	16.3	8.8	7.0	100.0
Widow's/widower's pensions (excl. housing allowance)	34.8	5.1	21.8	21.3	17.1	100.0
Children's pensions	26.5	17.1	25.9	17.5	12.9	100.0
Housing allowance to pension recipients	52.1	37.3	6.0	1.2	3.3	100.0
Sickness allowances to the insured	16.2	15.9	20.6	22.3	25.0	100.0
Parenthood allowance to the insured	25.7	22.8	23.2	15.8	12.4	100.0
Total employment pensions	7.4	22.6	22.6	21.4	26.0	100.0
Employment pensions: old age pensions	6.4	22.0	21.5	21.3	28.8	100.0
Employment pensions: disability pensions	8.9	26.2	23.3	21.5	20.1	100.0
Employment pensions: unemployment pensions	5.3	15.5	34.4	24.5	20.2	100.0
Employment pensions: survivors' pensions	11.1	22.6	22.5	21.1	22.8	100.0
Total unemployment allowances	38.6	19.3	19.7	13.2	9.2	100.0
Earnings-related unemployment allowance	22.8	21.2	24.8	18.2	13.1	100.0
Labour market support and basic unemployment allowance	65.4	16.0	11.2	4.8	2.6	100.0
Child allowances	29.6	23.3	20.5	15.9	10.7	100.0
Young children's home care and private day care allowance	48.1	22.3	13.8	9.1	6.7	100.0
Study grant (including housing supplement, Social Insurance Institution)	49.4	23.8	12.4	8.6	5.8	100.0
Social assistance	64.1	17.8	11.3	3.2	3.6	100.0
General housing allowance	73.2	15.1	6.6	3.5	1.6	100.0
Total income transfers received	**20.4**	**22.9**	**20.4**	**17.3**	**18.9**	**100.0**
Income transfers paid	**4.7**	**9.3**	**15.4**	**22.8**	**47.8**	**100.0**
Disposable income	**10.0**	**14.0**	**17.5**	**21.6**	**36.9**	**100.0**

The recipients of income-tested benefits are usually on low income during the time they receive the benefit. If the average time during which the benefit is received in short, a significant proportion of the total amount of benefits may be received by middle-income households on an annual level. Whether the income of a possible spouse or other household members is taken into account in income testing is also of importance in the distribution of income-tested benefits. In addition, part of the income can be excluded from the income test. For instance, the level of national basic pension is primarily only affected by the size of the pension recipient's own employment pension. Similarly, the social assistance of 18-year-olds living at home with their parents is only dependent on their own income and the expenses used as the basis for social assistance.

Table 10 shows how income transfers are distributed when households are ordered by their disposable income. This means that these benefits are already included in the household's disposable income. In addition, the income distribution effects of other benefits and direct taxation are also included. The table can primarily be seen as reflecting how minor adjustments in benefit levels focus on different income brackets. The results shown in the table are also fairly sensitive to the way in which the incomes of households of different sizes and types are compared (consumption unit), since it affects the position of different household types within the distribution of income.

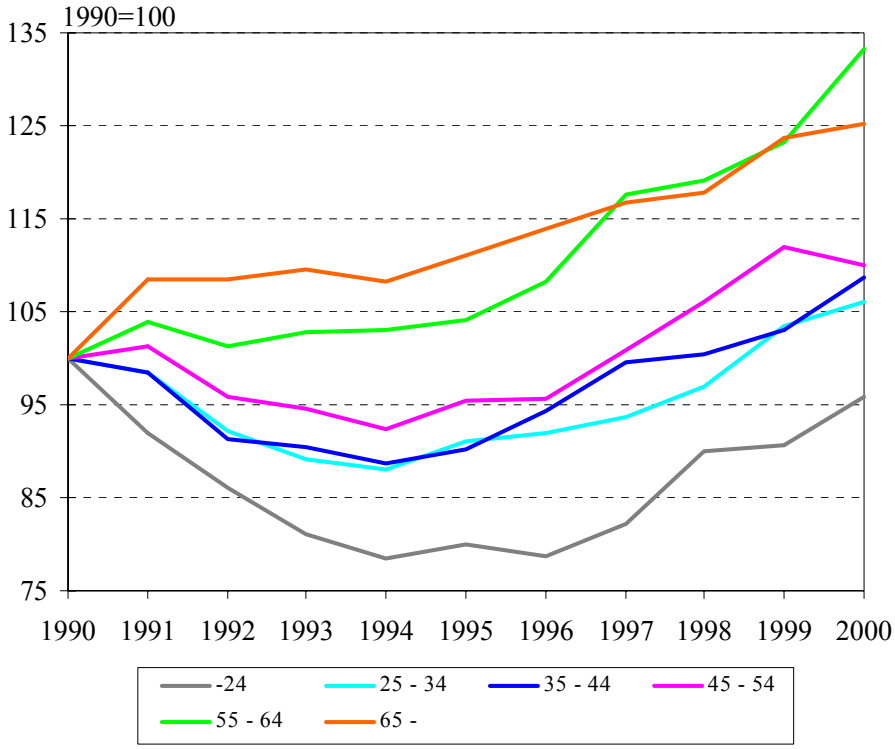
7.3 Income trends of different age groups and family types

The steep economic fluctuations have been reflected in different ways in the income trends of different age groups. In the early years of the 1990s the economic position of young people was weakened in particular. Older age groups were less affected by the recession than were people of working age. The income trends of different age groups have subsequently been more even. At the end on the 1990s the incomes of elderly households increased less than those of people of working age (Figure 55). In this sense, the trend is similar to that of the years of fast economic growth in the late 1980s. The income growth of the oldest age groups was weaker than that of other people at that time, too. In cross-sectional presentations such as figure 55 the income of elderly households is increased by the fact that new cohorts with better employment pensions take up pensions. Thus the change in the level of income does not reflect the average income trend of elderly households who were already included in the group at the beginning of the period under study.

The reduction in the number of people employed is reflected in the income trend of the youngest age group. In 2000, the average disposable income was still smaller than ten years earlier. The growing importance of education has for its part increased the share of student households in this age group, so that the high employment rate seen in the late 1980s is hard to achieve.

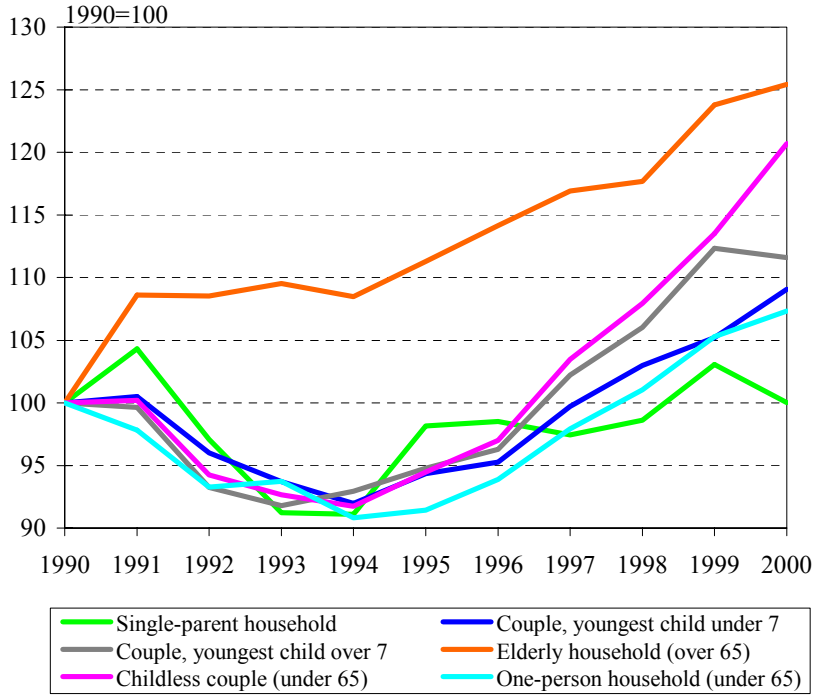
During the recession years of the early 1990s the average real income fell in all family types of working age. Only after the mid-1900s did the income levels start nearing the pre-recession levels. In recent years, the income trend among single parent households has started to lag behind that of other family types (Figure 56).

Figure 55. Trends in average real incomes of households by age group, 1990-2000



Real disposable income, 1990=100. The figure examines only changes in income, with the index illustrating each age group's average income set at 100 in 1990. Thus, differentials in income levels between the various age groups do not come out.

Figure 56. Trend in real incomes of households in different household types, 1990-2000



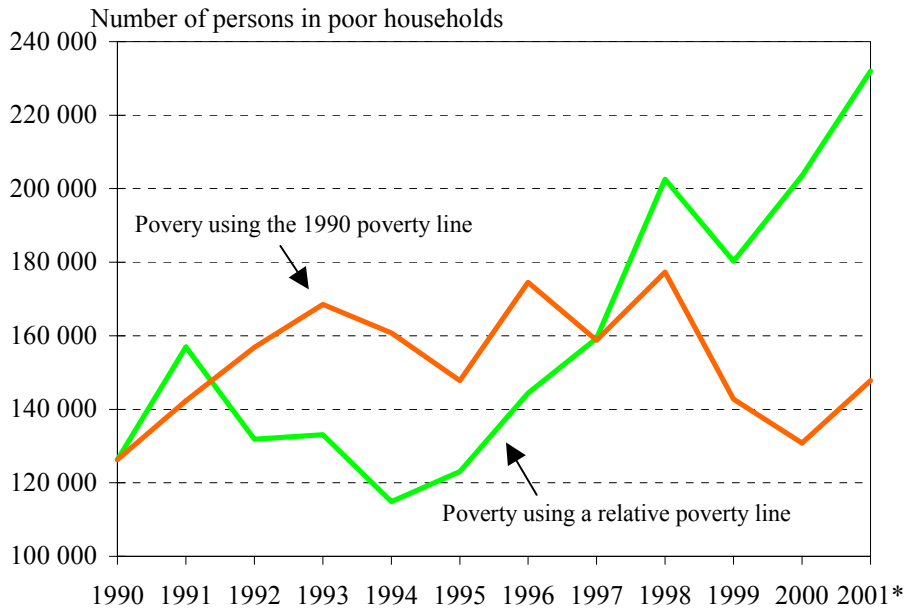
Real disposable income, 1990 = 100.NB: Random variation in the sample data may result in overestimation of annual income changes, especially in categories with relatively small sample sizes (e.g. single parents).

7.4 Relative poverty on the rise again?

In Finland, relative poverty has traditionally been defined as a situation in which a household's disposable income is less than half of the median income for all households. Such comparison endeavours to take into account differences in household size and family type. According to preliminary data from 2001, 232,000 people, or 4.5 % of the population, belonged to households whose income level was below the relative poverty line according to this definition.

There was a clear increase in relative poverty in the late 1990s. The positive income trend among people at work and the improved employment situation raised both the average income of households and the poverty line. At the same time, a number of benefits important to people with low incomes were either cut, or the index increases attached to them were omitted. In the late 1990s the rise of relative poverty seemed finally to have levelled off, even though the positive income trend of households still raised the poverty line. However, in 2000 and 2001 the number of people living below the relative poverty line increased again. This is primarily due to the raise in the poverty line attached to median incomes. If poverty is measured using fixed poverty line adjusted by changes in prices only, the number of poor people has fluctuated over recent years (Figure 57).

Figure 57. Poverty using a fixed and relative poverty line, 1990-2001



Income definition: Disposable income/OECD consumption units.
Source: Statistics Finland, Time series data on income distribution statistics.

Estimations on the prevalence of poverty are largely dependent on what kind of income limits, income definitions or other definitions are used. For example, Eurostat, the statistics bureau of the European Union often uses 60 % instead of 50 % of median income as poverty line. Instead of poverty, the term "the part of the population at risk of poverty" is commonly used. Raising the poverty line to 60 % of median income increases relative poverty rate from 4.5 % to 10.1 % in 2001. According to this definition, over 540,000 people live in households below the poverty line. The

consumption unit scales used in comparing households of different sizes also have an impact on the poverty rate of different family types. The practice used by Eurostat, the ”modified OECD scale” differs from the one that has long been in use in Finland, i.e. the ”old OECD scale” (see Table 11).

Table 11. Relative poverty rate in different household types in 1994 and 2000, %

Poverty line: 50 % of the median income of that year

	OECD consumption units			Eurostat consumption units		
	1994	2000	Change, percentage point	1994	2000	Change, percentage point
Single-parent households	2.8	9.1	6.3	3.4	8.2	4.8
Couple, youngest child under 7	2.3	6.2	3.9	1.5	3.1	1.6
Couple, youngest child 7 – 17	1.3	2.7	1.4	1.1	2.4	1.3
Elderly household (over 65)	0.4	1.7	1.3	1.1	3.5	2.5
Childless couple (under 30)	6.7	7.0	0.3	7.9	8.1	0.2
Childless couple (30 – 64)	1.2	0.4	-0.8	1.4	0.8	-0.7
One-person household (under 30)	15.7	17.9	2.2	25.0	25.2	0.1
- of which, men	11.5	18.5	7.0	18.8	25.4	6.6
- of which, women	20.8	17.2	-3.6	32.8	24.9	-0.9
One-person household (30 – 64 v.)	3.6	4.4	0.8	7.2	10.3	3.1
- of which, men	5.5	6.2	0.7	11.3	12.4	1.1
- of which, women	1.5	2.2	0.7	2.6	7.6	5.0
Other households	0.7	1.5	0.8	0.5	1.4	0.9
All households	**2.2**	**4.0**	**1.8**	**2.7**	**4.3**	**1.6**

Percentage of people below poverty line in each household type.
Due to rounding, the difference in the rate of poverty in 1994 and 2000 does not necessarily correspond to the indicated change.
Definition of income: Disposable income of household/consumption unit
Consumption units: Eurostat: Consumption unit scale used in the Eurostat ECHP survey
OECD: the so-called old OECD consumption unit scale used by Statistics Finland

In the latter part of the 1990s the relative poverty of single-parent households seems to have increased in particular. Income transfers play a significant role in the income formation of single parents. The trends in social security benefits in relation to general income trends have thus a great impact on the poverty level among this group. In addition, the employment situation of single parents has improved less after the recession than that of other family types.

The figures in Table 10 should be seen as indicative of a trend only, because the poverty rate may vary from year to year, due to random variation. For example, the poverty rate of single women under 30 was higher than that of single men of the same age group almost throughout the 1990s. However, in 2000 the poverty rate of the two groups was nearly the same. It is hard to say, based on the figures of just one year, whether this indicates a real change or is just caused by random variation. On

the other hand, the relative poverty rate of single men aged 30-64 was higher than that of single women of the same age every year between 1989-2000. The difference is caused by the higher proportion of long-term unemployed men, in addition to which a higher proportion of unemployed women living alone were covered by earnings-related unemployment security.

If the poverty line is set at 50 % of median income, the majority, or 70 %, of the population living below the poverty line belong to households with no members at work. As expected, the largest group consists of unemployed households, which included almost 30 % of the people below the poverty line in 2000. The second largest socioeconomic group was made up of students. In many studies on poverty, student households are excluded, since the low income of students is seen as an often temporary feature linked to a certain period of life. Study loans are also not taken into account as income. The largest economically active group consists of entrepreneurs, most often self-employed persons without paid employees. There is some doubt about the results on poverty among entrepreneur households as well. Strong fluctuation of annual income is typical for entrepreneurs, which means that some years may be almost without any income at all. There are also particular problems related to the definition of income among entrepreneurs. It was stated above that raising the poverty level to 60 % of disposable income increases relative poverty over 2.5-fold compared to the 50 % limit. The raise also changes the structure of poverty. The proportion of households with wage and salary earners and pension recipients increases, while that of students decreases.

Table 12. Distribution of population below poverty line according to socioeconomic position of household reference person in 2000, %

	Poverty line, % of median income	
	50 %	60 %
Unemployed	29.1 %	23.7 %
Students	20.5 %	13.5 %
Others	13.3 %	8.4 %
Entrepreneurs and self-employed persons	11.8 %	8.9 %
Pensioners	8.8 %	13.3 %
Farmers	6.6 %	5.5 %
Workers	5.8 %	16.6 %
Other employees	3.9 %	6.9 %
Upper-level employees	0.2 %	3.2 %
Total	100.0 %	100.0 %

The reference person is usually the member of the household with the highest income.

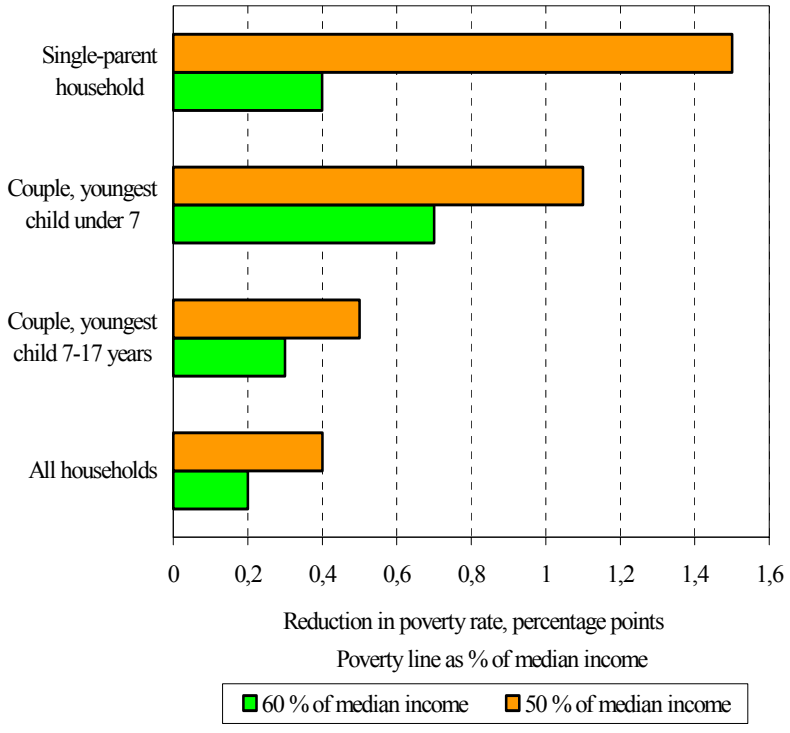
Purchasing power of child allowance and poverty among families with children

Relative poverty rate increased among families with children in the latter part of the 1990s. No inflation adjustments were made to child allowances, so the trend may be partly caused by the reduced purchasing power of chid allowances. In order to assess this with the aid of simulation models, a calculation was made where the child allowances of 2002 were raised according to the change in prices between 1995-2001. In order to finance the raise, the marginal tax rates were raised by half a percentage point compared to the ones in use in 2002.

Figure 58 shows an assessment of the joint impact of the hypothetical reform on the relative poverty rate using 50 % and 60 % of median income as poverty line. When poverty line is set at 50 % of median income, the reform clearly reduces poverty among families with children. This is particularly true of single-parent households and couples with children under school age. The changes are more minor when the higher, 60 % poverty line is used. Even though the settings are not comparable, the estimation of the reduction of poverty can be studied in relation to the figures given in Table 11 illustrating the increase in poverty in the late 1990s. It would seem that the reduction in the purchasing power of child allowances explains a rather small proportion of the increase in poverty among families with children. Changes in other social benefits or unemployment trends may have had a greater impact, for instance.

When the results are assessed, it should be borne in mind that raising the level of child allowance in the example called for higher income taxation. Higher income taxation may have harmful consequences that could not be taken into account in the calculation. The example illustrates the conflicting pressures that are nearly always involved in the development of the benefit and taxation system. On the one hand, the situation of those with a low income must be taken into account, and a relatively equal income trend must be ensured among various population groups. At the same time, there seems to increasing pressure to lower the tax rates.

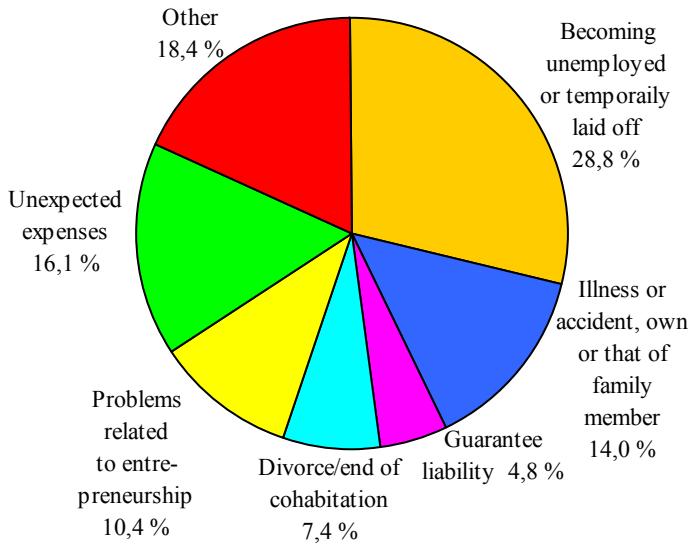
Figure 58. The poverty rate reducing effect of increased child allowance and higher income taxation on the level of 2002, %



7.5 Overindebted households

Overindebted households are one group suffering from serious financial problems that traditional poverty analysis does not bring our. Like poverty, overindebtedness is very hard to measure. Evaluations of the number of people in excessive debt and the changes therein vary according to the method used. In 2000, there were some 100,000 households who considered themselves to be overindebted. Households reported unemployment as the main cause of their excessive debts (Figure 59). Among different family types, overindebtedness was most common among single-parent households.

Figure 59. Overindebted households according to main cause for excessive debt in 2000



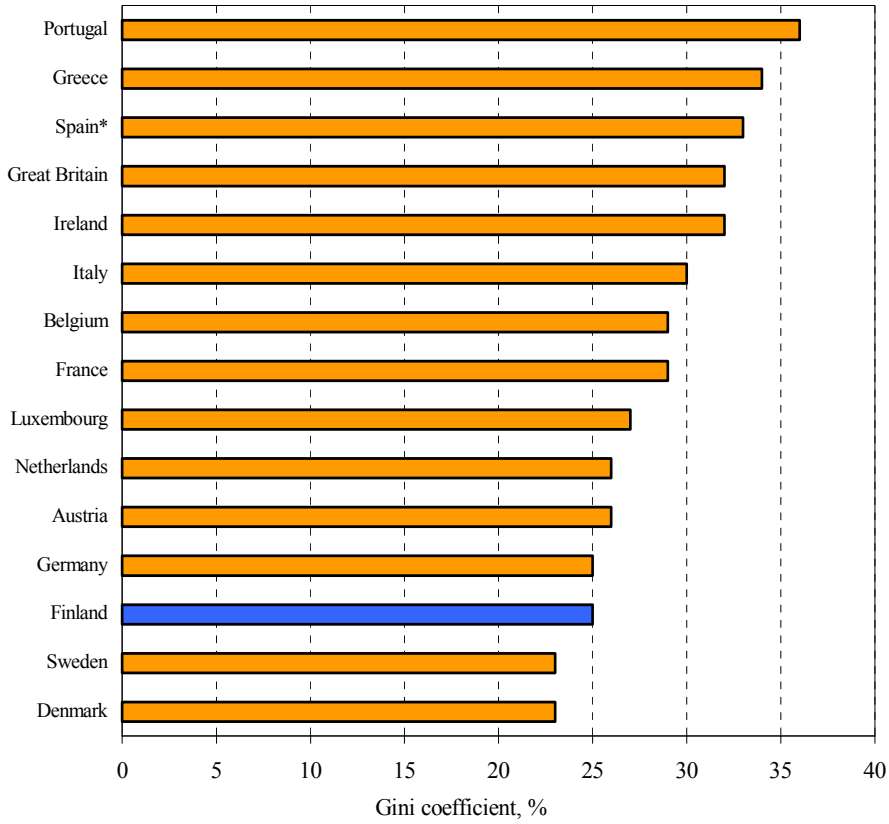
According to data gathered by the credit information company Suomen Asiakastieto Oy, the number of private persons with payment defaults has increased somewhat since 2000. In 2002, the number of new payment defaults of private persons and companies rose some 4 % and 13 %, respectively, compared to the previous year. In December 2002, about 305,000 had a payment default entry. The total number of people with payment defaults has remained virtually unaltered, because the number of old entries that have been removed from the credit register after a certain period of time is the same as the number of new ones added to the register.

Last year the Parliament approved a Government proposal concerning the Execution Act, the Debt Restructuring Act and the limitation of debts. One of the aims of the reforms is to ease the position of the debtor and make it clearer. Attempts have been made to ease the position of debtors in other ways as well. In May 2002, banks and the central government signed a programme document concerning voluntary debt restructuring, and key operators in debt collecting joined in with their own commitments during the summer. The aim of the project is to solve the majority of the debt problems that still persist as a legacy of the recession. During the first six months, banks and debt collecting agencies contacted some 35,000 debtors by letter. At first, the low response rate on the part of the debtors seemed a problem, but they seem to have become somewhat more active lately.

7.6 Income differentials in an international comparison

Compared to most other EU countries, income differentials in Finland are relatively small. In international comparison, the Nordic countries have traditionally formed a separate group with clearly smaller income differentials than those found in other countries. However, the increase in income differentials seen in Finland in the late 1990s changed the situation slightly. In 1998, income differentials in Finland were at about the same level as in Germany, Austria and the Netherlands (Figure 60).

Figure 60. Income differentials in EU Member States in 1998



* Preliminary data. The greater the Gini coefficient, the greater the differences in income.
Source: Eurostat, ECHP
NB. Eurostat reports the figures as data for 1999, even though the income data are from 1998.

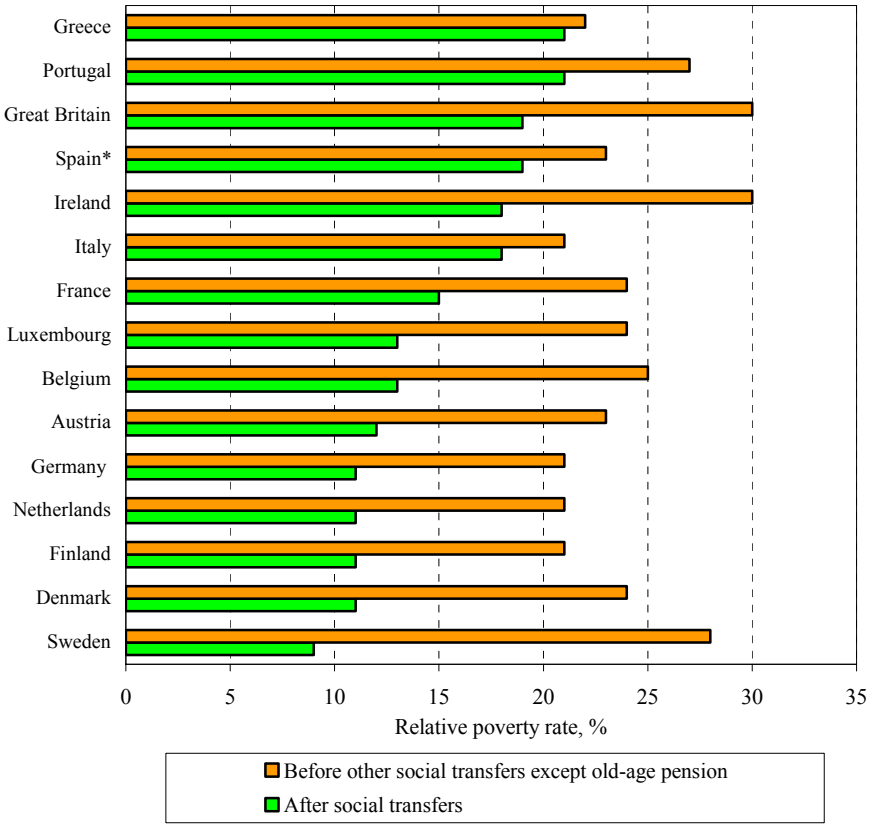
The relative poverty rate measuring the proportion of low-income population is lower in the same EU Member States where the income differentials are also small. If social transfers, with the exception of pensions, are excluded from the survey, the differences in relative poverty rates between EU Member States are evened out. Differences in the poverty-reducing effect of social transfers explain a significant proportion of the differences in poverty rate between the countries. However, the poverty-reducing effect of social transfers may be overestimated in this kind of static comparison. Social transfers and the taxes levied to finance them may reduce employment. This might again increase the poverty rate in studies where social transfers are not yet included in income (Figure 61).

In figure 61, poverty in each country has been defined in relation to median income of households in that country. Countries with a high level of income thus also have a higher poverty line than countries with

low income levels. This is why poverty rates in different countries cannot be used as such to compare the incomes of people with low income in different countries. Measured by purchasing power of income, the poverty line in Finland and Sweden is much lower than e.g. in Denmark, Belgium and Germany. The lowest poverty lines are found in Portugal and Greece. In spite of this, these were the countries with the highest relative poverty rates.

Despite the fact that a lot of effort has been put into improving the comparability of income statistics between EU Member States in recent years, there are still several problems involved with international statistical comparisons of income distribution and poverty. A certain degree of caution is therefore warranted in interpreting the results.

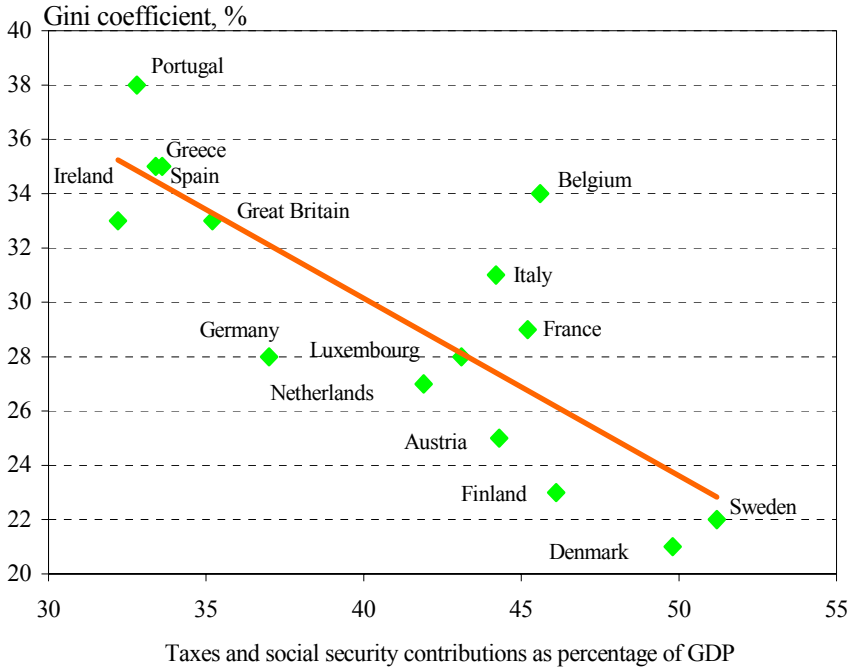
Figure 61. Relative poverty rate in EU Member States in 1998



Poverty line: 60 % of the median income in each country
Source: Eurostat, ECHP

Besides social transfers, income differentials are equalised by taxation. When EU Member States are compared, a clear connection can be seen between taxation and income differentials. As a rule, income differentials are smallest in the countries with a higher than average total tax rate (Figure 62). In addition to taxation, many other factors affect the size of income differentials, so the relation between taxation and income differentials varies from one country to another. The complex connections and interdependencies between taxation, income distribution and other factors do not come out in a simplified comparison of the kind shown in Figure 62. However, based on the figure it can be predicted that combining a low level of taxation with an even distribution of income is a very challenging task.

Figure 62. Total tax rate and income differentials in EU Member States in 1997



Source: Eurostat (income differentials) and OECD (tax rate)

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Appendix

Appendix 1

The summary is based on the report financed by the Ministry of Social Affairs and Health: Ilpo Suoniemi, Hannu Tanninen and Matti Tuomala. Hyvinvointipalveluiden rahoitusperiaatteet. Helsinki 2003. 100 p. (Publications of the Ministry of Social Affairs and Health, ISSN 1236-2050; 2003:5)
ISBN 952-00-1330-X

Financing principles of welfare services

1. Introduction, the task of the public sector

When evaluating the general financing principles of welfare services, one has to take a stand as to what is the appropriate way of providing services. What tasks are suited for the public sector, and what is the best division of tasks between the public and the private sector? In many countries, the public sector has a significant role in the financing of education, health care, various nursing and care services as well as other social services. Why should the public sector provide or finance such commodities? They are, after all, primarily private commodities, which can be provided by the market. Taking care of service provision seem to be an integral part of the general task spectrum of the welfare state. Can the public funding and provision of welfare services promote the overall aims of the public sector?

The welfare state is a slogan that is used a lot. As is the case with many slogans, exact definition of the welfare state is difficult. Traditionally, two interpretations have been given for the welfare state. According to the more comprehensive interpretation, the welfare state means economic and social policy that prioritises minimising economic discrepancy and the protection of the individual in the face of social misfortune. According to a more narrow interpretation, the welfare state is seen as specific functions of the public sector, mainly social protection systems and the provision of some social commodities. Even though these two interpretations are to some extent overlapping, the more narrow view can be see as a microeconomic and the more comprehensive as a macroeconomic view, in terms of economics.

In the classic economic classification by Richard Musgrave, the key task of the public sector are the appropriate targeting of economic resources, redistribution of income and ensuring economic stability. In interpretation of the tasks of the public sector and the welfare state alike, both a micro and macroeconomic approach is used. In this connection we are particularly interested in such tasks of the welfare state where service provision and social insurance systems occupy a central role. Of all the objectives of the public sector, these two are particularly aimed at appropriate targeting of resources and fair redistribution of income.

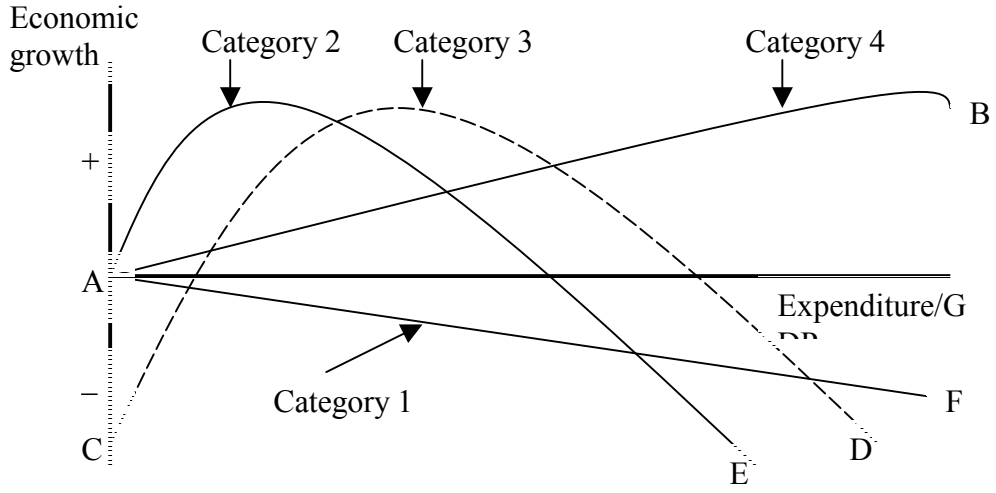
2. The macro approach to the welfare state

From the viewpoint of macroeconomy, the key question is the impact of the size of public economy and its cost structure on resource allocation, i.e. on the volume of production and employment in the short term, and on economic growth in the longer term. The budget expenditure that (possibly) improves the use of economic resources can roughly be divided into provision of public commodities and merit commodities. The term public commodities refers to national defence and public administration, and merit commodities to education, social and health care services etc. The main responsibility for income redistribution falls on social protection expenditure.

The European economic and monetary alliance and especially the Growth and Stability pact have brought the sustainability of public economy and financial policies to the focus of the economic policy of the member states. The cost pressure caused by an ageing population has emphasised these viewpoints, but coming challenges also call for raising the level of employment and boosting economic growth. Initially, the tightened requirements for a balanced public economy focused on cost-cutting, but lately the focus has shifted to the differing impact on employment and economic growth of the various cost categories from the point of view of the employment and growth targets set for EU member states.

The macroeconomic section of the report describes different classification grounds of public expenditure, and evaluates the impact of public expenditure, especially of merit commodities, on economic growth in light on the latest empirical research. The classification provided by the European Commission (2002) divides public expenditure into different categories based on their impact on growth.

Figure 1. The relationship between economic growth and public expenditure



Source: Euroepan Commission (2002: 85)

Part of the expenditure is assumed to have merely negative effects that slow down economic growth (Category 1). Some have initially a positive impact on growth, but after expenditure reaches a certain level, the positive impact starts to decrease (Category 2). The impact on growth of expenditure in the third category is negative if the level of expenditure is low, but otherwise the effects resemble those of expenditure in Category 2. Some types of expenditure only have positive effects (Category 4).

Expenditure category	Impact on growth and/or employment
(1) Interest costs	Always a negative impact on efficiency
(2) Old age, compensation paid to employees, collective spending	Positive if costs are limited, otherwise negative
(3) Unemployment security costs	Positive, if not too low or too high
(4) Education, R&D, public investment, health care, active labour market measures	Always positive, provided that extremely large sums are not spent

The expenditure classification used by the European Commission is based on an extensive literature review of empirical studies. In the section of the report looking at macroeconomy, the approach is complemented by reviews by Atkinson and Benabou. The use of aggregate material from a variety of countries involves several problems in empirical research, but there is a clear weakness in the material from the point of view of classification of the effects on economic growth. Nearly all of the studies only focus on linear correlation (Categories 1 and 4), and only few of them look for a truly unlinear correlation, as required by classification into Categories 2 and 3. On the basis of the information that is available at present, it is very hard to provide motivation for prioritising different expense categories based on their differing effects on growth.

3. The welfare state from the point of view of social insurance

The macro perspective is complemented by looking at the welfare state and its tasks from the point of view of microeconomy and modern public economy. The microeconomic perspective can be roughly outlined with the aid of the following questions: What tasks are suited for the public sector, and what is the best division of tasks between the private and the public sector? What is the most effective way of taking care of welfare-related tasks, when the public sector framework is tied in terms of the size of the expenditure budget? What all the approaches presented have in common is the fact that incompleteness of information is taken into account. Problems related to information make it harder for the private sector to allocate resources in an effective manner. This also strengthens the potential role of the public sector. Does the public sector have what it takes to fulfil this role? It is faced with the same problems caused by incomplete information, adverse selection and moral hazards resulting from the practical measures taken by those in charge of economy. The public sector must thus make plans for an optimal welfare and redistribution policy within the framework on incentive and selection limitations due to incomplete information.

When looking at social protection, the viewpoint is often limited to income transfers in the public sector. Income transfers do play a key role in guaranteeing economic security, but as is shown later, public services also have a vital role to play.

The functions of the welfare state can be interpreted more broadly, as a comprehensive social insurance, which makes it possible to control uncertainties, to share risks and guard against them, and to protect individuals against social misfortune.

The definition of risk entails that we are able - at least in principle - to assess the likelihood of all possible outcomes. In the case of uncertainty, this is not true. This difference is a significant one, because it is possible to guard against many risks with the aid of the insurance

market by either combining or dividing them. When it comes to uncertainty, the situation is different: due to asymmetric information, the insurance market is often a failure, for example.

The insurance market vs. social insurance

The insurance market is forced to operate in an environment of asymmetric information. Private insurance companies do not have access to accurate information on the characteristics or actions of the insured. Problems of *adverse selection* and moral *hazard* lead to situations that are ineffective compared to situations characterised by complete balance of information.

In a situation involving *adverse selection,* the number of new insurance contracts is too low, because the customer base is uneven, with too many high-risk cases. In a *moral hazard* situation the insurance company would be willing to provide more insurance protection, but cannot do so, because it would lead to changes in the way the clients behave. In this case, the insured would also like to buy more insurance than is actually available.

How can the public sector help solve the problems related to coverage and financing of private insurance? Social insurance differs from private insurance in two ways. Firstly, the public sector can solve the problem of adverse selection by making participation in insurance programmes mandatory, thus eliminating the exclusion of low-risk individuals. Secondly, the terms of contract of social insurance may be defined more loosely than in the case of private insurance. This makes social insurance more flexible than private insurance. If uncertainty regarding the future cannot be expressed in terms of exact likelihoods, social insurance has some clear advantages.

Welfare programmes as social insurance

In addition to explaining general principles, the report looks at welfare programmes in various countries by interpreting them as social insurance. The programmes under study are health care and elderly care as well as unemployment insurance, pension and education systems. The criteria for comparison include system administration (public, third sector or private) and financing (general tax, earmarked tax or payment of voluntary fee). In terms of institutional structures, special attention is focused on the connection between financing and benefits, whether the system is actuarial or redistributory in nature on the level of the individual (Table 1).

The Finnish social insurance systems are characterised by the fact that their administration is managed by institutions that differ from one another to a relatively great extent: KELA, trade unions and private insurance companies. However, the significance of the administrative body must not be exaggerated from the viewpoint of social insurance, because the system as a whole can still be either actuarial or redistributory in nature (Table 1).

Table 1. Means of financing the social insurance system

Means of financing, administration	Connection between financing and benefits	Policy alternatives
General tax	No connection	
Earmarked tax/fee	No connection on individual level	Connection between payment returns and total costs
Social insurance fee: public institution	Connection on individual level: the individual's right to benefit and its level either actuarial or redistributory	Administered by employer/employees; outsourcing
Social insurance fee: trade unions or non-profit organisations	Connection on individual level: either actuarial or redistributory	Regulation
Mandatory fees: private sector	Connection on individual level: actuarial	Regulation; linked to other public sector systems; possibility of choice between private and public sector/other programmes
Voluntary fees: private sector	Connection on individual level: actuarial	(Regulation)

Source: Atkinson (2002); typologies modified by authors.

The often-stated point of view, according to which the negative behavioural effects of taxation are diminished when the link between financing and benefits is made clearer and social insurance fees are seen as a form of insurance saving rather than a tax, speaks in favour of the actuarial system. With regard to mandatory income-fixed social insurance, the SOMERA committee is willing to increase the actuarial nature of insurance fees with the motivation that it would raise the degree of incentive of the system (Ministry of Social Affairs and Health 2002). Basic security would still be financed with taxes and remain redistributory in nature.

Unemployment insurance

In the case of unemployment insurance, the impact of an unfavourable selection on clientele is such that persons with a high risk of becoming unemployed are the most eager to become insured, while those with a low risk do not have the need to insure themselves against unemployment at the current price level. Insurance companies have a need to set the fees of some clearly definable high risk groups at a high level, or even exclude these groups altogether.

A key source of moral hazard is the employees' possibility to influence whether they are made redundant or get a job. The starting point of the job seeking theory is that the level of unemployment benefit raises the threshold wages, i.e. the level of pay at which a job offer is accepted. There has been extensive discussion in literature on whether unemployment insurance lengthens periods of unemployment beyond their optimal duration (see e.g. Atkinson and Micklewight, 1991).

The income-based Finnish unemployment insurance system can be interpreted as a decentralised social insurance system concerning members of trade unions, where, at least in principle, the insurance fees are more closely linked to the risk of unemployment of different professions than is the case with an insurance system covering the entire work force. One could however ask whether insurance of this kind, based on group-specific risks and partly

actuarial in nature, promotes vertical justness? If group-specific risks and thus also insurance fees are highest among those with the smallest income, and the people that are most disadvantaged in the labour market pay the highest insurance fees, the situation cannot be desirable from the point of view of income distribution.

Health care

The problem caused by moral hazard is a significant reason for the growth of health care spending, due to excessive use of insurance and health care services alike. In the latter case, the so-called third party problem has a significant impact on the cost of care. Depending on how health care is organised (public vs. private funding or service provision), costs are curbed either by influencing the incentives of operators in the field of health care, or by regulating service provision. The control mechanisms based on incentives are typically used in privately funded health care systems. In the case of publicly funded health care systems, regulation, including regulation of individual care measures, is commonly applied to help curb costs.

The costs of privately funded and provided health care are usually regarded as being high (see e.g. Besley and Gouveia, 1994, Barr, 2001). This is based primarily on experiences from the United States. The advantage of a health care system of this kind is the freedom of choice it gives to consumers, but on the other hand, the complexity and high costs of the system are clear disadvantages. In the US, the rising costs of health care were curbed in the 1990s in both the private and the public sector with various administrative and regulatory programmes. What these programmes have in common is that they aim to control prices and the extent of care by limiting the freedom of the insured to choose service providers and individual care procedures and by interfering with physicians' treatment decisions (OECD, 2002a). Based on recent findings, the goal of cutting costs was reached only temporarily (see Strunk et al., 2002). However, the fact that a significant proportion of the population in the US is not covered by health care insurance is probably a more serious problem than the high costs of health care.

Long-term care and insurance

Voluntary actuarial insurance is not very successful in dividing the risks related to need of long-term care. Adverse selection in this connection means that care insurance is typically purchased by individuals with a higher than average need of care. Insurance companies should thus price care insurance to match the potential need of care of their clientele. On the other hand, since it is by no means simple to define need of care, individuals or their families have the possibility to demand extra care within the insurance policy. In addition, foreseeing the costs of elderly care calls for very long-term predictions, which in turn reduces the scope of operation of the insurance market.

Financing education

Higher education can be financed as hitherto, so that education is provided at almost no cost, or students pay a tuition fee or take study loans to pay for their education. According to Barr (2001) the latter system has the advantage of not providing subventions to persons with higher education on the expense of others. On the other hand, those with a higher education pay a higher income tax on their higher income (and pensions) than others. The precise targeting of education costs is increased further by the progressive nature of income taxation. In principle,

with the aid of taxation it is possible to even out the costs of education and the individual advantages during the rest of an individual's life.

Pension systems

The starting point of pensions systems is the notion that individuals exchange their current share of production for claims regarding future production. This can be arranged by means of pension funds. In this system, pensions are paid out of pension funds, the reserves of which come from pension premiums paid by members. In the other system, the so-called pay-as-you-go system – which is primarily used in Finland as well – pensions are paid out of tax revenue. The system is based on an implicit contract between generations, i.e. the generation now at work finances the pensions of today's pensioners.

One of the myths that has come up in the current discussion on pensions in Finland and elsewhere is the widely held view according to which the system with pension funds is more advantageous than the pay-as-you-go system. This would be the case if the return on the capital were higher than the sum of growth rate of employment and wages. This does not, however, provide sufficient motivation for moving from a pay-as-you-go system to a fund-based system; the costs related to change of system must also be taken into account, the risks involved in the two systems must be compared and their administrative costs must be assessed. The pension fund system is not necessarily more advantageous than the current pay-as-you-go system, if the transition period costs are taken into account (Barr, 2001 and Diamond 2002).

It is only possible to influence the time of payment of transition costs, not their amount. Thus the transfer from the pay-as-you-go system to a pension fund-based system does not in itself bring about a clear improvement, only an income transfer between generations.

4. Public supply and public service provision

The extensive service provision of the Scandinavian welfare state can be motivated by referring to the merit commodity nature of services and the positive external effects of their consumption. It is characteristic of merit commodities that consumers either cannot make decisions in time of whether to make use of them, or they lack sufficient information to help them in their decision-making. This leads to a situation where the consumption of merit commodities falls below a desired level. These traditional arguments get a lot of positive response. There is, however, some reason to suspect that the motivation given is not very central when it comes to social services, for example. In addition, it may be hard to motivate the extensive service provision and public funding of the modern welfare state merely by measures aimed at improved allocation of resources. Nowadays, redistribution aims are often seen as the driving force behind public actions, whereas earlier research emphasised the problems related to market failures.

The share of expenditure caused by welfare services does not show much variation between developed countries. Welfare services take up a sizable portion of the GDP, usually 15-20 %. It is important to distinguish between public sector supply or financing and public service provision. The public sector can finance services with tax funds without actually providing them itself. Or, as is primarily the case in Scandinavian countries, the public sector can also produce a sizable share of these services. In these countries, the public sector employs a

significantly higher share of the work force than is the case in Finland and other OECD countries. We will take a look at the motivation for public supply (financing) and public service provision.

Service supply is an important income redistribution instrument. We will now look at why the public sector offers these services, even though at a first glance financial support seems to be a more appropriate form of support. Public supply of services involves either no fees or a nominal fee, which is not related to the production costs of the service. Asymmetrical information sets limitations for redistribution and welfare policy. The report takes up circumstances where public supply of services can increase the efficiency of welfare policy compared to financial support alone. In addition, we will compare service supply free of charge to subsidised private services, and assess the role of user fees and service vouchers as alternative welfare policy instruments.

The following features make it possible to use services as redistribution policy instruments:

(i) It is difficult, in practice impossible, to resell services. This is why services can be distributed directly to the public.
(ii) Services have a more immediate effect than other commodities on people's ability to function in society, particularly in the job market, and their availability should not be dependent on people's ability to pay. This places considerable responsibility on the public sector in promoting and maintaining people's possibilities to function
(iii) Services are in nature such that their provision requires a high input of labour. In the Scandinavian countries this has led to a situation where a large share of the population is employed by the public sector.

At the same time, services often act as a substitute for leisure, i.e. they complement the work supply. This makes it possible for their direct supply to alleviate incentive limitations related to financial support and achieve a more effective welfare and redistribution policy.

It is an interesting feature of the more recent studies on public economy that key findings are dependent on minimal belief change: the Pareto principle and the avoidance of inequality (however minor). The results are obtained in a setting where a (Pareto-) efficient mechanism is looked for in order to achieve certain kind of redistribution. A central element of this tradition, which was started by an article of Mirrlees (1971), is lack of information concerning individuals' production ability.

Grounds for public supply

The general principle is that the desirability of public supply of commodities is based on the same conditions as the use of commodity taxes. If the service offered complements work supply and is simultaneously a commodity that acts as a substitute for leisure, its use should be supported. This has a favourable effect on the supply of work and the incentive limitations that must be taken into account when designing welfare policy guidelines. Support can be in the form of public supply and financing, or in the form of price subsidies for services purchased on the market. When comparing the mutual efficiency of income transfers, price subsidies and public supply of a private commodity it can be seen that even though all of them, taken separately, constitute instruments that increase well-being, public supply of commodities is always part of an optimal combination of policies, while the others are not. Table 2 sums up the main findings of this line of research.

Table 2. Publicly supplied private commodity that acts a substitute for leisure

Characteristics	Examples and remarks
No reselling	Services
No related substituting commodities	If a form of commodity support is chosen, it must also extend to alternatives that are close to it from the point of view of demand: - Institutional care for the elderly - Sheltered housing for the elderly - Home care of the elderly
(a) A commodity as a substitute for leisure	
(1) Service can be substituted by work at home	(1) Children's day care and elderly care (from the point of view of families)
(2) Greater volume of service is interpreted as better quality	(2) (Occupational) and basic health care that improve the capacity to work - Queues within the public health care system vs. swift operation of private insurance
(1) Excluding choice (either/or) of market commodity	(1) In an optimal situation, at least part of the population are offered "too much" in relation to their willingness to pay. Two alternatives in an optimal situation: • Public services aimed only at part of the public • Public services as a public commodity aimed at everybody, if it is too expensive to make distinctions from an income distribution perspective.
(2) Compensatory additional purchases allowed	(2) Service vouchers in private service provision, or user fees in the public sector • The excess supply of the public quotas remains • The compensatory purchase system may improve the well-being of the more productive share of the population. In this support, political support may wane
(3) Additional price subsidy to market commodity	(3) Commodity subsidy is always part of an optimal system. Price subsidy (sickness insurance) is only beneficial if the public quota is too small.

In the case of a service that acts as a substitute for leisure and compensates the work supply, an optimally set public service quota may lead to excessive supply (high quality of service) compared to willingness to pay. The level of service may even be so high that almost everyone chooses the public alternative as opposed to a service purchased in the private market, in which case the public supply creates a "public commodity". Price subsidy is only necessary if the public service quota is too small and on a non-optimal level.

Public or private service provision

After this we will take a look at the motivation for public service provision. The public financing or health care and social services does not necessarily require that the services should be provided by the public sector. Incomplete information causes problems within systems using private service providers on contract basis. It is difficult to measure the quality of service and the volume of production as a whole. Contracts remain deficient, and the differences in objectives between private service providers and public service commissioners make it difficult to reconcile them. The strive for profit in the private sector provides a strong

incentive for lowering costs. This is why private service providers may slash costs in such a way that the quality of services falls below the optimal social level. If the negative effects of cost cutting on quality are great, the key finding of the incomplete contract theory speaks in favour of public service provision compared to private contract-based service provision (Hart et al., 1997).

An additional explanation for the high employment share of the public sector in Scandinavia and the ensuing extensive service provision may be indirect redistribution brought about by public employment. Extensive redistribution merely by means of taxation and income transfers causes distortions, welfare losses from taxation. Public service provision and employment may have a role that helps alleviate these distortions. This role is based on the fact that differences in wages constitute a key reason for income differences, and the public sector, when willing, may e.g. employ more workers belonging to groups that it is beneficial to favour from the point of view of redistribution policy.

A positive explanation for public supply

To finish off, we take a look at service supply in the public sector as a political economy issue. Why is it that an extensive service supply may be a politically more sustainable alternative than redistribution based on income transfers? In a political economy model based on the choices made by the median voter the chosen level of supply does not necessarily comply with the minimum social level. This is in accordance with the fact that within a publicly supplied health care system, poorer people seem to enjoy a higher level of care than in other systems that are exclusively aimed at the poor. A more extensive clientele naturally makes the system also economically more acceptable. Due to paternalistic reasons, people with higher incomes may be more willing to finance a redistribution system that takes the form of service provision, e.g. health care, rather than cash. As was seen earlier, problems of incentive related to redistribution may also be smaller within a system based on commodity provision as opposed to income transfers.

Finally

As the population grows older, the need to provide services increases. If services are financed with taxes that distort the workings of the economy, the increased tax burden may limit the possibility to finance services with public funds. On the other hand, the increased need for services increases the benefits gained from them, thus speaking in favour of increased services provision. When the burden of financing is being exaggerated, there is a tendency to forget that the net effect of the factors working to different ends is unclear. In addition, the increased transparency of the economy and tightening international competition may lead to a rise of welfare losses due to taxation, e.g. as the mobility of production factors increases.

On the other hand, several reasons have been given above in favour of public supply: increasing public service provision may alleviate incentive problems of taxation and income transfer policy; this may provide a means to avoid information problems of the private insurance market, many services are merit commodities, and wealthier people are more willing to accept support in the form of commodity instead of cash benefits due to paternalistic reasons. The strong role of the public sector in service provision may have a favourable effect on tax revenue, reducing the welfare loss caused by taxation.

Additionally, public service provision can be used to promote the objectives of employment policy and to have an indirect effect on redistribution with the aid of a high level of public employment. In the Nordic countries, objectives related to income redistribution have played a central role. As a result, income available for consumption is relatively evenly distributed in these countries. The outcome is to a great extent a result of public welfare policy, for the differences between industrialised countries are significantly smaller when it comes to production factor income (Ministry of Social Affairs and Health, 2002b). The level of taxation is relatively high in the Nordic countries, particularly in the highest income brackets. In addition to this, public service provision and the employment share of the public sector are on a high level internationally. The extension of public service provision may have been an instrument aimed at reducing the incentive problems caused by taxation. Welfare services in the Nordic countries have been developed in close cooperation with labour market organisations, and labour and wage agreements are often tied to the social packages proposed by them.

The Nordic countries are small economies relying largely on international trade. Openness also leads to higher risks in the form of fluctuations of international trade and economic problems relayed from other countries. Rodrik (1998) has interpreted the Nordic welfare state so that theses countries have a greater need to control the risks arising from the openness of economies and to guard against losses caused by disturbances. According to the Nordic view, the tasks of the welfare state are not limited to social expenditure, but they extend further, to economic and social policy. The highest priority is the reduction of economic inequality and the protection of individuals against social misfortune. This may also have given rise to efficiency benefits, shown as a reasonable level of public debt, a good balance of the public economy and a high employment rate from a European point of view. Comprehensive public service provision has been used as one of the instruments to achieve this.

The new challenges facing the countries in Europe - the ageing of the population and the increased openness of their economies - do not necessarily call for the Nordic countries to discard their earlier welfare policy strategies. Even though the emigration of persons with higher incomes may make the implementation of national welfare policies more difficult, it does not necessarily affect the mutual ranking order of political instruments. The benefits of a welfare policy based on service provision may even prove to be more important than before, when the use of income transfers becomes more difficult.

Emigration from Finland has so far remained at a relatively low level, and taxation does not seem to be the main motive behind it, at least judging by the target countries (The Economic Council of Finland 2002: Appendix 2).

Appendix 2

SOCIAL PROTECTION INDICATORS

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
I SOCIAL PROTECTION EXPENDITURE AND FINANCING												
Social protection expenditure												
Social protection expenditure, € million	22 101	28 670	29 700	30 200	31 161	31 281	31 662	32 192	33 115	34 831	36 500	38 100
GDP, € million	87 968	82 851	87 846	95 251	98 709	107 103	116 395	119 961	130 234	135 791	139 734	143 800
Social protection expenditure/GDP	25.1	34.6	33.8	31.7	31.6	29.2	27.2	26.8	25.4	25.7	26.4	26.5
Social protection expenditure, €/inhabitant at 2000 prices	5 320	6 230	6 350	6 370	6 520	6 450	6 410	6 430	5 390	6 540	6 730	6 900
Social protection expenditure by target group												
- sickness and health care	27.5	20.7	19.7	20.3	20.7	21.3	22.0	22.4	23.1	23.7	24.5	24.6
- disability	15.0	14.7	14.5	14.5	14.3	14.3	14.0	13.8	13.5	13.3	12.8	12.4
- old age	28.6	27.5	27.3	28.1	29.0	29.1	29.6	30.3	30.9	31.7	31.8	32.3
- survivors	4.0	3.9	3.8	3.8	3.8	3.9	3.8	3.9	3.9	3.9	3.8	3.6
- families and children	13.0	11.8	13.3	13.0	12.1	12.3	12.4	12.4	12.1	11.7	11.2	10.8
- unemployment	5.9	15.6	15.2	14.0	13.5	13.0	11.6	11.0	10.1	9.5	9.7	10.1
- housing	0.7	1.1	1.4	1.5	1.2	1.2	1.4	1.5	1.4	1.2	1.1	1.1
- other	1.8	2.0	2.0	2.0	2.3	2.4	2.1	2.1	2.0	2.1	2.1	2.0
- administration	3.5	2.6	2.8	2.8	3.1	2.7	3.1	2.6	3.1	3.0	3.0	3.0
- total	100.0	99.9	100.0	100.0	100.0	100.2	100.0	100.0	100.1	100.1	100.0	99.9
Contributions to the financing of social protection expenditure, %												
- central government	25.0	30.3	30.4	29.1	28.3	26.9	25.5	24.7	24.0	23.3	23.1	24.2
- local authorities	15.6	15.1	15.9	16.7	16.2	17.3	18.2	18.7	19.2	19.4	19.3	19.0
- employers	44.1	34.7	33.0	33.7	35.3	35.5	37.1	37.5	37.7	38.8	39.2	40.0
- the insured	8.0	12.3	14.3	13.7	13.1	13.4	12.3	12.5	12.1	11.6	11.7	11.3
- property income	7.3	7.6	6.4	6.9	7.2	6.8	6.9	6.6	7.1	6.9	6.6	5.5
- total	100.0	100.0	100.0	100.1	100.1	99.9	100.0	100.0	100.1	100.0	99.9	100.0

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
The Ministry of Social Affairs and Health's main division expenditure in the State budget												
Ministry of Social Affairs and Health's main division expenditure, € million	6 548	9 053	9 007	8 246	8 110	7 559	7 232	7 082	7 277	7 606	8 192	8 471
Government grant to municipalities for operating costs of social services and health care, € million	3 638	3 696	3 345	3 251	2 909	2 492	2 360	2 330	2 404	2 553	2 732	2 968
Ministry of Social Affairs and Health's main division expenditure as a percentage of total government expenditure	27.7	26.6	27	24.7	24.1	24.1	22.1	19.8	18.9	21.1	23.1	23.7
Expenditure of municipalities												
Municipal operating costs on health care and social services, € million	6 912	8 411	8 470	8 871	9 326	9 706	9 901	10 201	10 755	11 586	12 100	12 550
Municipal social services and health care personnel	232 200	225 300	228 000	224 600	232 300	235 300	233 700	232 800	237 300	241 400	243 000	244 000
- of which women	90.8	90.8	90.7	90.9	90.8	90.9	90.9	90.9	90.9	91.0	91.0	91.0
Government debt, % of GDP	11	53	59	63	68	66	60	57	49	45	43	42
II SICKNESS AND HEALTH CARE												
Sickness and health care expenditure (net), € million	6 075	5 949	5 864	6 144	6 462	6 676	6 943	7 196	7 629	8 263	8 950	9 400
Cash benefits	1 337	1 169	1 145	1 201	1 221	1 260	1 337	1 417	1 524	1 624	1 800	1 900
- daily sickness allowance	515	451	441	424	399	401	422	458	494	523	600	640
- sick pay	690	605	590	660	710	740	790	820	890	944	1020	1100
Services (net)	4 739	4 780	4 719	4 943	5 241	5 416	5 605	5 779	6 105	6 640	7 150	7 500
- primary health care	1 880	1 541	1 572	1 625	1 708	1 663	1 715	1 762	1 881	2 019	2 130	2 200
- specialized health care	2 063	2 278	2 177	2 293	2 432	2 549	2 641	2 692	2 791	3 028	3 320	3 450
- sickness insurance	661	802	811	860	929	1 015	1 072	1 135	1 242	1 379	1 500	1 600
Life expectancy and infant mortality												
Life expectancy, years												
- men	70.9	72.1	72.8	72.8	73.0	73.4	73.5	73.7	74.1	74.6		
- women	78.9	79.5	80.2	80.2	80.5	80.5	80.8	81.0	81.0	81.5		
Infant mortality, (1/1000)	5.6	4.4	4.7	3.9	4.0	3.9	4.2	3.6	3.8	3.2		

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
Morbidity												
Recipients of daily sickness allowance	397 900	293 300	283 200	284 400	275 000	271 800	278 100	286 900	295 800	301 300	320 900	335 700
- of which women, %	55.1	54.5	55.1	55.5	56.0	56.0	55.8	55.9	56.0	56.0		
Absences due to sickness as percentage of total working days, %	3.7	3.6	3.4	3.4	3.3	3.3	3.3	3.5	3.9	3.7	3.9	3.8
Number of persons caught an occupational disease	9 081	7 006	6 672	5 847	5 744	5 038	4 816	5 182	4 993	4 925		
Number of prescriptions/inhabitant	6.1	5.9	5.7	6.0	6.3	6.4	6.6	6.8	7.3	7.3	7.4	7.4
Bed-days and discharges of health care												
Primary health care, wards												
- discharges/1.000 inhabitants	31	43	41	44	48	49	53	53	54	52	53	53
- bed days/1.000 inhabitants	1 240	1 352	1 154	1 402	1 423	1 462	1 490	1 476	1 495	1 442	1 490	1 500
Specialized health care, wards												
- discharges/1.000 inhabitants	187	191	200	194	198	193	188	183	181	175	185	190
- bed days/1.000 inhabitants	2 006	1 652	1 830	1 547	1 519	1 397	1 321	1 271	1 227	1 194	1 250	1 300
Reimbursements of National health insurance,												
Number of recipients (1.000)												
Medicines, basic refund	3 127	3 057	2 954	3 056	3 123	3 133	3 098	3 136	3 187	3 217	3 206	3 200
Medicines, special refund 75/100%	813	902	904	895	912	928	942	953	981	1 007	1 029	1 050
- of which to women, %	56.2	57.4	57.1	56.7	56.5	56.3	56.1	56.0	55.8	55.5		
Private doctors´services	1 481	1 326	1 262	1 302	1 340	1 333	1 360	1 361	1 394	1 476	1 483	1 500
- of which women, %	65.0	65.3	65.8	65.5	65.4	65.4	65.6	65.6	65.6	64.8		
Private dentists´ services	167	241	253	269	288	382	666	467	470	628	706	800
- of which women, %	55.6	50.4	50.8	51.3	51.8	53.9	56.7	54.5	54.1	54.9		
Private examinations and treatment	845	684	635	634	661	675	715	718	739	767	763	760
- of which women, %	66.4	66.4	66.8	67.7	67.7	67.7	68.1	67.8	67.9	67.5		
Transportation	615	485	506	521	553	558	561	564	573	563	571	570
- of which women, %	57.4	54.4	53.5	54.4	53.3	53.4	53.4	53.6	53.6	53.4		

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
III DISABILITY												
Expenditure on disability, € million	3 312	4 210	4 303	4 394	4 447	4 466	4 427	4448	4 467	4 621	4 700	4 700
Cash benefits	2 769	3 426	3 573	3 611	3 664	3 665	3 538	3 491	3 455	3 520	3 600	3 600
- disability pensions	1 869	2 207	2 214	2 257	2 293	2 342	2 306	2 325	2 358	2451	2 560	2 580
- individual early retirement pensions	351	641	686	713	681	610	529	458	393	340	300	290
- military injuries indemnities	293	340	299	295	288	286	278	269	265	266	260	240
Services (net)	543	636	692	730	782	825	889	956	1 012	1 102	1 100	1 100
- institutional care for the disabled	151	159	150	135	131	133	128	127	133	140	140	140
- services for the disabled	253	295	345	395	465	502	541	539	573	642	640	650
- rehabilitation	139	182	197	200	186	190	220	294	306	320	320	330
Disability pensions												
Recipients of disability pensions on December 31	300 930	309 730	310 630	309 510	301 780	294 990	288 050	282 050	276 300	267 900	267 700	272 900
- of which women, %	47.0	46.5	46.5	46.6	46.7	46.7	46.8	46.8	46.8	46.6		
Services												
Disabled persons in institutional care on December 31	4 390	3 630	3 890	3 700	3 510	3 300	3 140	3 030	2 960	2 860	2 900	2 900
Households with a disabled person receiving home help services during the year	7 970	6 090	6 070	7 000	6 970	6 600	6 230	6 570	6 380	6 310	6 350	6 400
Seriously disabled persons with transport services	35 000	38 980	42 640	45 840	51 300	55 100	58 590	61 700	66 570	70 840	73 000	75 000
IV OLD AGE												
Expenditure on old age, € million	6 312	7 881	8 099	8 480	9 031	9 096	9 379	9 782	10 233	11 023	11 700	12 400
Cash benefits	5 642	7 142	7 343	7 648	8 127	8 203	8 464	8 815	9 184	9 867	10 500	11 150
- old age pensions	5 347	6 751	6 967	7 272	7 597	7 840	8 105	8 423	8 758	9 409	10 000	10 600
Services (net)	670	739	756	832	904	893	915	967	1 049	1 157	1 200	1 250
- institutional care for the elderly	409	449	449	482	486	454	459	476	496	529	530	550
- open care of the elderly	261	290	307	350	418	439	456	491	553	628	670	700
Pensioners												
Recipients of old age pensions, on December 31	737 150	776 800	789 400	804 100	822 500	836 700	846 900	858 200	869 700	875 600	892 300	909 300
- of which women, %	63.5	62.7	62.5	62.3	61.9	61.7	61.5	61.4	61.1	60.7		
Recipients of part-time pensions, on December 31	430	2 260	4 470	5 440	6 100	6 930	10 920	18 280	24 530	29 070	39 300	46 900
- of which women, %	52.8	54.4	54.6	53.6	53.1	54.2	54.7	54.1	54.4	53.3		

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
Services												
Persons in old people's homes on December 31	26 620	24 210	23 410	22 950	22 910	22 270	21 420	21 070	20 660	20 550	20 000	19 500
Elderly households receiving home-help services	125 600	99 100	91 680	86 750	87 410	85 000	84 620	84 280	83 150	84 210	85 000	86 000
Elderly clients receiving auxiliary services during the year	103 100	109 720	93 950	97 970	99 210	103 300	105 520	103 420	105 200	106 500	107 000	108 000
V SURVIVORS												
Expenditure on survivors, € million	890	1 118	1 130	1 144	1 175	1 208	1 217	1 252	1 276	1 340	1 380	1 370
- survivors' pensions	840	1 066	1 083	1 098	1 136	1 167	1 176	1 210	1 236	1 296	1 340	1 330
Pensions												
Recipients of widows/widower's pension on December 31	194 780	220 040	225 050	230 800	238 380	243 450	247 000	250 300	252 800	255 300	262 400	260 000
- of which women, %	98.2	94.4	93.5	92.7	92.0	91.3	90.7	90.1	89.6	89.1		
Recipients of child's pension on December 31	28 430	29 530	29 630	29 340	29 250	29 340	28 880	28 250	28 480	28 070	28 000	27 800
VI FAMILIES AND CHILDREN												
Expenditure on families and children, € million	2 879	3 378	3 942	3 920	3 775	3 836	3 918	3 981	4 007	4 088	4 100	4 130
Cash benefits	1 670	2 159	2 725	2 615	2 324	2 333	2 356	2 347	2 348	2 349	2 380	2 410
- parents' allowance	527	575	526	507	466	460	456	467	478	500	520	560
- home care allowances	376	543	551	513	343	349	375	361	357	349	370	370
- child allowance	689	932	1 531	1 475	1 412	1 410	1 405	1 397	1 387	1 376	1 370	1 360
Services (net)	1 209	1 219	1 217	1 305	1 434	1 503	1 563	1 633	1 660	1 738	1 720	1 720
- child day care	988	934	930	1 000	1 108	1 159	1 199	1 237	1 229	1 240	1 250	1 240
Recipients of parents' allowance on December 31												
- mothers	54 910	57 070	55 210	53 340	51 570	49 870	48 430	48 960	48 570	47 450	47 000	46 500
- fathers	1 300	2 050	2 210	1 930	2 210	2 030	2 190	2 810	2 220	2 400	2 500	2 600
Children cared by home care allowance on December 31	..	158 740	152 920	137 530	121 350	118 600	115 600	112 800	111 600	109 140	107 060	106 000
Children cared by private day care allowance on December 31	..	..	..	..	..	9 710	12 760	13 820	14 060	14 510	14 450	14 500
Children in municipal day care on December 31	200 200	174 300	180 800	189 900	217 300	219 700	218 500	215 100	200 400	197 200	194 000	190 400

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
VII UNEMPLOYMENT												
Unemployment expenditure, € million	1 299	4 476	4 523	420	421	4 061	3 683	3 519	3 345	3 314	3 530	3 850
Cash benefits	1 103	4 213	4 221	3 961	3 900	3 719	3 354	3 187	3 041	2 992	3 230	3 550
- basic daily allowance	145	974	863	455	158	138	102	87	83	87	100	110
- earnings-related daily allowance	375	2 553	2 498	2 187	2 179	1 993	1 591	1 411	1 306	1 192	1 240	1 480
- labour market support	0	0	220	688	896	861	901	894	812	822	880	940
- unemployment pensions	445	389	399	409	403	451	504	567	621	682	740	780
- labour market training benefits	124	214	186	190	220	223	194	160	145	127	140	140
Services	196	263	302	260	322	342	330	332	304	292	300	300
- labour market training for adults	118	173	205	158	216	232	202	198	180	162	170	160
Unemployment												
Unemployment rate, %	3.2	16.3	16.6	15.4	14.6	12.7	11.4	10.2	9.8	9.1	9.1	9.4
- women	2.7	14.4	14.8	15.1	14.9	13.0	12.0	10.7	10.6	9.7	9.1	9.2
Number of unemployed persons. average	82 000	405 000	408 000	382 000	363 000	314 000	285 000	261 000	253 000	238 000	237 000	246 000
- of which women, %	40.2	42	42.6	46.6	48.5	49.0	49.8	50.2	51.8	50.8		
Recipients of unemployment allowances, during the year												
Earnings-related daily unemployment allowance	171 300	596 200	544 400	468 200	468 800	418 300	369 800	334 800	296 400	276 600	280 800	294 600
- of which women, %	51.1	47.9	50.0	53.0	53.7	55.4	58.3	57.5	58.9	58.7		
Basic daily unemployment allowance	126 050	363 100	280 550	215 300	93 600	58 900	50 800	45 700	43 300	43 650	46 600	48 000
- of which women, %	40.8	38.9	39.1	38.4	42.3	41.6	43.4	44.4	45.7	45.9		
Labour market support	..	..	123 600	270 000	314 900	308 600	322 600	311 800	286 600	271 400	263 000	271 400
- of which women, %	..	..	42.7	39.9	41.9	43.7	46.2	47.2	47.9	48.7		
Pensions												
Recipients of unemployment pension on December 31	55 490	42 790	42 960	39 150	41 410	44 860	49 390	52 240	54 290	58 020	58 000	59 800
- of which women, %	54.9	52.6	51.8	51.7	51.9	52.0	52.0	52.0	52.4	52.7		
VIII HOUSING												
Expenditure on general housing allowance, € million	161	320	411	441	387	365	440	497	467	401	415	430
Recipients of general housing allowance (households on December 31)	110 490	182 380	227 560	213 820	191 880	184 610	205 590	207 000	170 350	158 460	159 600	157 000

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002**	2003**
IX OTHER												
Expenditure on other, € million	401	581	591	615	710	747	671	664	671	724	750	770
Cash benefits	208	399	415	440	517	540	448	422	421	459	480	500
- social assistance (net)	182	337	388	419	489	511	430	401	395	429	450	470
Services (net)	193	182	176	176	193	207	224	243	250	265	270	270
- care for alcoholics and drug abusers	75	61	65	69	73	76	73	80	87	100	100	100
Social assistance												
Households receiving social assistance during the year	181 600	292 600	329 400	339 000	349 600	344 700	313 400	292 000	271 700	264 100	266 000	267 100
Average duration, months	3.9	4.3	4.8	5.1	5.4	5.6	5.4	5.4	5.5	5.7	5.8	6.0
Alcohol, tobacco, drugs												
Daily smokers, percentage of 15-64 year-olds												
- men	33	29	29	28	28	30	30	27	27	29	28	
- women	20	19	19	19	19	20	20	20	20	20	20	
Alcohol consumption, l/inhabitant												
- documented consumption	7.7	6.8	6.6	6.7	6.7	6.9	7	7.1	7.0	7.3	7.6	
- undocumented consumption	1.2	1.4	1.4	2.1	1.9	1.9	1.8	1.7	1.8	1.7	1.7	
- total	8.9	8.2	8	8.8	8.6	8.8	8.8	8.8	8.8	9.0	9.3	
A-clinics, number of clients during the year	38500	3410	35400	35600	38200	38500	39000	39300	41 800	42 030		
Youth clinics, number of clients during the year	3000	2600	2700	2700	3100	3550	3450	4050	4 450	4 870		
X POPULATION AND INCOME												
Income												
Disposable income per capita, € at 2002 prices	11680	10760	10410	11220	11140	11770	12150	12670	12560	12980	13370	
Income differentials												
(Gini coefficient, the higher the figure the greater the differential, 1990=100)												
Factor income (earned income + capital income)	100	115	117	117	118	119	119	120	120	118		
Gross income (factor income + income transfers received)	100	102	101	104	106	110	114	118	122	117		
Disposable income (gross income - taxes)	100	102	101	105	108	114	119	125	130	125		

Disposable real income,1990=100	**1990**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001***	**2002****	**2003****
Single parents	100	91	91	98	99	97	99	103	100			
Couples with children (youngest child under 7)	100	94	92	94	95	100	103	105	109			
Couples with children (youngest child over 7)	100	92	93	95	96	102	106	112	112			
Elderly households (over 65)	100	110	108	111	114	117	118	124	125			
Childless couples (under 65)	100	93	92	94	97	103	108	113	121			
Single persons (under 65)	100	94	91	91	94	97	103	105	107			
Others	100	95	95	98	100	105	108	109	112			
Poverty												
Risk of poverty	2.5	2.7	2.3	2.4	2.9	3.1	4.0	3.5	4.0	4.5		
(Percentage of persons living in households whose disposable income is less than 50 % of the median disposable income for all households)												
XI SOCIAL INSECURITY												
Suicides												
- men	1 198	1 107	1 080	1 080	956	1 038	962	954	873	933		
- women	322	291	307	309	282	284	266	253	292	271		
Homicides (murders and manslaughters)	..	417	512	493	484	462	419	426	479	522		
Assaults	..	18 656	19 836	22 188	24 542	24 847	25 660	26 223	27 820	27 329		
Drug-related crimes	..	..	5 936	9 052	7 868	8 323	9 461	11 674	13 445	12 970		
Divorces	13 127	12 753	13 751	14 025	13 795	13 507	13 848	14 030	13 913	13 568	13 250	
Legal abortions	12 220	10 370	10 010	9 870	10 420	10 250	10 750	10 830	10 930	10 700		
Residential care of children and young people												
- total	..	9 688	10 208	10 697	11 124	11 764	12 010	12 224	12 835	13 453		
- of which taken into custody	..	6 393	6 403	6 478	6 474	6 803	6 778	6 802	7 290	7 396		
Children and young people in open-care	..	24 690	27 820	30 690	33 270	35 810	39 670	43 680	49 350	49 610		
Children receiving maintenance support	73 090	92 590	98 480	103 100	106 410	107 900	108 500	108 960	107 960	107 150	106 800	106 000

*) forecast, **)estimate

Sources: Ministry of Social Affairs and Health
National Research and Development Centre for Welfare and Health (Stakes)
Statistics Finland
Institute of Occupational Health
Central Pension Security Institute
Social Insurance Institution
SOTKA database

Appendix 3

Average pension and social insurance contributions[1]

	1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002*
EMPLOYERS										
National pension insurance [2]	3.20	3.41	3.39	3.45	3.24	3.25	3.23	3.16	2.95	2.44
Sickness insurance [2]	1.90	1.91	2.05	2.05	1.74	1.74	1.70	1.69	1.69	1.69
Unemployment insurance [2] [3]	5.60	5.40	4.50	2.90	2.90	2.78	2.79	2.53	2.58	2.25
Employment pension insurance [4]	15.50	15.60	16.60	16.80	16.70	16.80	16.80	16.80	16.60	16.70
Municipal pension insurance	17.20	18.90	20.30	21.00	20.80	21.10	21.40	21.70	22.20	22.60
INSURED GROUPS										
Wage-earners	**6.90**	**8.32**	**8.32**	**7.70**	**7.90**	**7.60**	**7.55**	**7.20**	**6.70**	**6.30**
National pension insurance	1.80	1.55	0.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sickness insurance [5]	1.90	1.90	1.90	1.90	1.90	1.50	1.50	1.50	1.50	1.50
Unemployment insurance	0.20	1.87	1.87	1.50	1.50	1.40	1.35	1.00	0.70	0.40
Employment pension insurance	3.00	3.00	4.00	4.30	4.50	4.70	4.70	4.70	4.50	4.40
Retired persons	**6.70**	**7.45**	**6.45**	**4.90**	**4.90**	**4.20**	**3.90**	**3.20**	**2.70**	**1.90**
National pension insurance	2.80	2.55	1.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sickness insurance [5]	3.90	4.90	4.90	4.90	4.90	4.20	3.90	3.20	2.70	1.90

1) Annual average. Employers' contributions and unemployment and employment pension insurance contributions paid by the insured as a percentage of salaries. National pension and sickness insurance contributions paid by the insured as percentage of taxable income in the municipal taxation.

2) The average weighted with the total payroll in the various payment categories.

3) The progressive employers' unemployment insurance contribution introduced during 1993. The level was 3.75% of the salary if the annual total payroll was less than € 168.188; for larger amounts the contribution was 6% of the total.
In 1994-2003 the contributions has been as follows:
- In 1994, the contribution was 3% for the first FIM 1 million total payroll, otherwise 6.3%.
- In 1995, the contribution was 2% for the first FIM 5 million total payroll, otherwise 6.1%.
- In 1996-97, the contribution was 1% for the first FIM 5 million total payroll, otherwise 4%.
- In 1998, the contribution was 0.9% for the first FIM 5 million total payroll, otherwise 3.9%.
- In 1999, the contribution was 0.9% for the first FIM 5 million total payroll, otherwise 3.85%.
- In 2000, the contribution was 0.9% for the first FIM 5 million total payroll, otherwise 3.45%.
- In 2001, the contribution is 0.8% for the first FIM 5 million total payroll, otherwise 3.1%.
- In 2002, the contribution is 0.7% for the first 840940 euro, otherwise 2.7%.
- In 2003, the contribution is 0.6, for the first 840940 euro, otherwise 2.45%.

4) Employment pension contribution

5) Contribution percentage in the table up to 80,000 tax units. A surcharge was levied on amounts in excess of 80,000; the contributions were as follows in 1992-99: 1.5 %/1992-93, 1.9 %/1994-95, 1.45 %/1996 and 0.45 %/1997-98. The surcharge has been abolished since 1999.

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