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JANNE METSÄMÄKI | NAF 15.–16.9.2022

Sustainable Financing of Unemployment Benefits

NAF 15.–16.9.2022 Helsinki

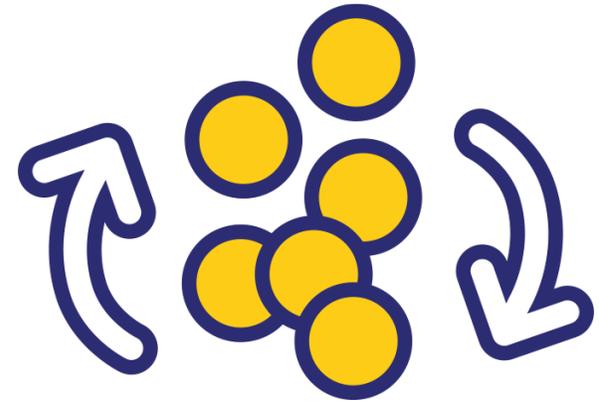


Työllisyysrahasto

Sysselsättningsfonden | Employment Fund

Financing of benefits

- Earnings related benefits → financed by contributions paid by employers and employees
- Different needs for funding different benefits
- Earnings related pensions
 - Pay as you go
 - Funding of future pensions
- Unemployment benefits
 - Contributions by employers and employees
 - Membership fees
 - State finance
 - Business cycle buffer



Employment Fund is a Finnish public institution established by law

The Employment Fund serves an essential role in the Finnish social security system as **its customer base includes all employers and 18 to 64-year-old employees in Finland.**

The Employment Fund collects unemployment insurance contributions used for **funding earnings-related unemployment benefits as well as promoting employees' competence development through adult education benefits.**

The Fund is also responsible for the financing of **pay security and pension accruals** during periods of unemployment.

The Finnish Financial Supervisory Authority supervises the Employment Fund. The Fund is an organisation established by law and managed by the labour market parties.

Main tasks of the Employment Fund:

1. Imposition of mandatory unemployment insurance contributions and collection from employers and employees.
2. Financing of earnings-related unemployment benefits.
3. Execution and financing of adult education benefits.
4. Financing pension accruals during periods of unemployment and pay security.

Contributions collected by Employment Fund cannot be used for any other purpose than statutory payments and the Issuer's administrative costs.

Sectoral unemployment funds pay statutory benefits.

We finance Finnish working life extensively

Employees

pay unemployment insurance contributions.

EUR
1,241
million

Employers

pay unemployment insurance contributions. In certain situations, they also pay a liability component and a compensation for disputes concerning wrongful dismissal in accordance with the Employment Contracts Act.

EUR
1,183
million

The State

finances a portion of the unemployment allowances by tax revenue.

EUR
911
million



Employment Fund

Insurance and state contributions collected

EUR
3,340
million

Contributions paid*

EUR
3,947
million

Net assets (the business cycle buffer) used to cover the deficit was

EUR
412
million

Remaining in the business cycle buffer

EUR
633
million

We pay a share of the earnings-related allowances to the unemployment funds.

EUR
1,463
million

We pay for the pensions accrued during unemployment to the Finnish Centre for Pensions and the State Pension Fund.

EUR
913
million

We pay a share of the basic daily allowances to Kela.

EUR
239
million

We fund the adult education allowances.

EUR
175
million

We pay a share of the pay security to the Ministry of Economic Affairs and Employment.

EUR
14
million

We fund training compensations (only available to municipalities, parishes, associations and foundations).

EUR
8.1
million

We fund scholarships for qualified employees.

EUR
10.4
million

We pay the government contribution for unemployment allowances to the unemployment funds.

EUR
909
million



*Includes administrative expenses
Figures for 2021

Finnish unemployment benefits system

Unemployment benefits	Basic allowance	Earnings-related allowance
Eligibility	Min. 26-week employment during 28 mo. before unemployment	Min. 26-week employment during 28 mo. before unemployment; equally long membership of the unemployment fund
Funding	Finnish State	Finnish State, employers, employees
Basic component	-	Finnish State
Earnings-related component	-	Employers & employees
Benefit distributor	The Social Insurance Institution	Sectoral unemployment funds

- The unemployment benefits system is composed of basic allowance and earnings-related allowance.
- The Employment Fund plays a key role in the earnings-related allowance.

Successful management during the Covid19-pandemic

Finland

- Outbreak of the Covid19-pandemic in Finland in March 2020
- Major lock down of the society and in various business sectors in the Spring 2020
- Swift increase in unemployment benefit applications
- The Fund started a major funding program with various debt facilities being covered in April-June 2020.

The Employment Fund

- Actions taken by the Employment Fund and the Government of Finland during Covid19 pandemic to guarantee the Fund's liquidity.
- Appeal to the Finnish Government
 - To guarantee financing of unemployment benefits
 - To guarantee the 800 MEUR revolving credit facilities ("RCF's")
 - State financing of basic component for earnings related benefits in temporary lay offs (year 2020).

The outcome

- In 2020 The Employment Fund managed to safeguard the liquidity and together with the Government of Finland provided full support to the unemployed.
- In 2021, unemployment benefit costs remained high due to the COVID-19 pandemic. Finland's economic growth improved in the second half of the year, which reflected as a reduction in unemployment.
 - The Fund's financial result exceeded our estimates and our liquidity was good throughout the year.
- In 2022 January-June employment continued to develop positively.
 - In Fund's most recent forecasts we have adjusted the outlook for the next few months upwards.

Employment in Finland

03/20: Economic activity decreased as a result of the coronavirus pandemic. The number of unemployed jobseekers, especially laid-off workers, increased.

03/20: The government of Finland declared a state of emergency due to the coronavirus pandemic and enforced the Emergency Powers Act that imposes restrictions on business activities.

04/20: In April, the proportion of unemployed jobseekers of the total workforce increased to 16.5 per cent and was 7.7 percentage points higher than in the previous year.

06/20: The number of coronavirus infections remained low during the summer, and the number of unemployed jobseekers slightly decreased compared to May. The state started funding the portion of earnings-related unemployment allowance in the lay-off period that corresponds to basic unemployment allowance until the end of 2020.

08/20: The number of coronavirus infections started to increase in the autumn, which dampened the economic prospects in many sectors. At the end of August, there were over 50,000 more laid-off workers than in the previous year.

March

The Employment Fund's activities

03/20: The Employment Fund predicted a significant increase in unemployment benefit costs as a result of the coronavirus pandemic. The Fund started preparations to secure the financing of unemployment allowances.

03/20: The Employment Fund called on the government of Finland to secure the financing of unemployment allowances.

April

04/20: The Employment Fund agreed on a new revolving credit facility (RCF) worth EUR 800 million with five Nordic banks with a two-year maturity. The revolving credit facility is guaranteed by the Finnish state.

June

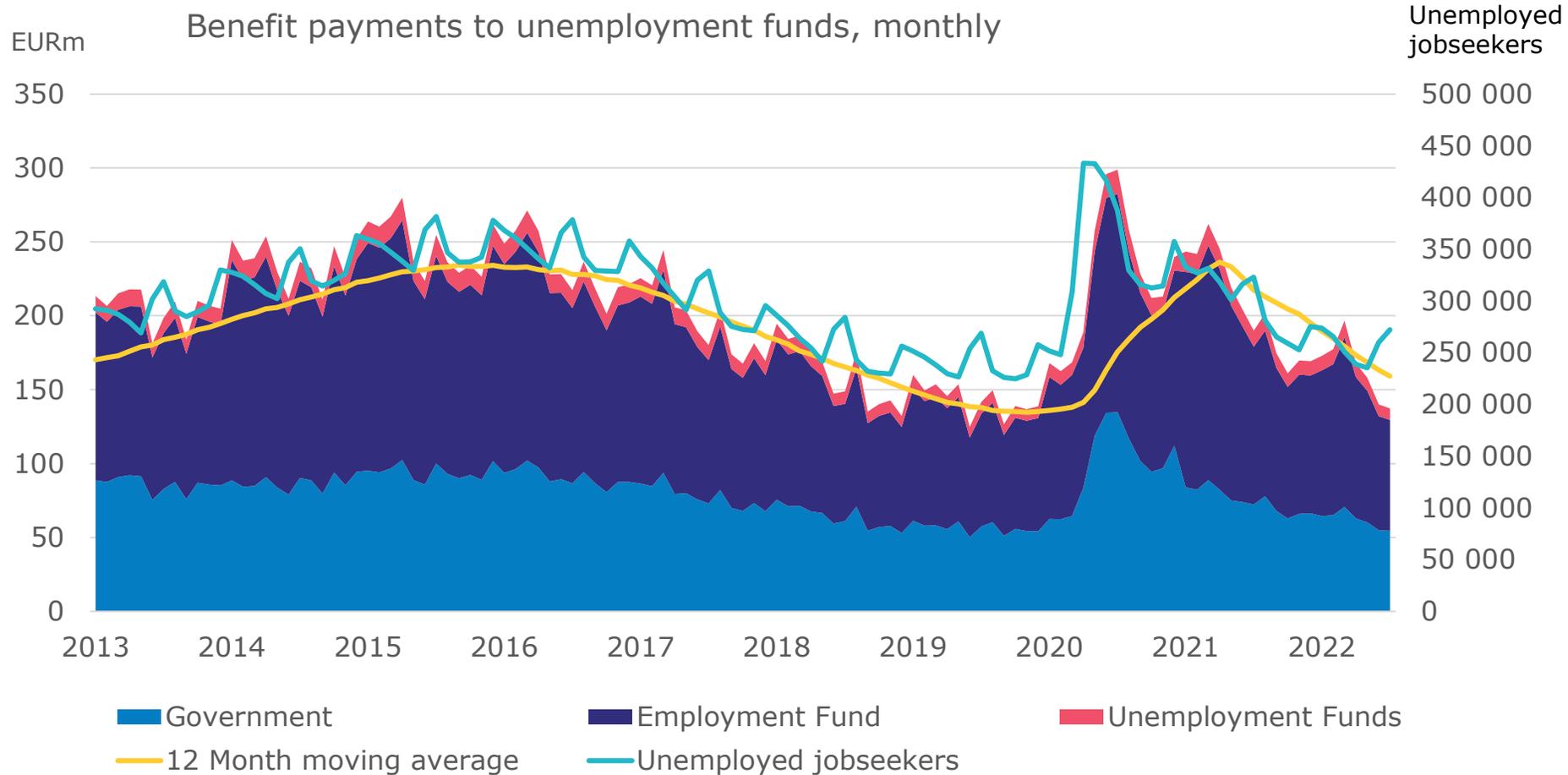
06/20: The Employment Fund ensured its liquidity by issuing two bonds in the amount of EUR 1,200 million.

August-September

08/20: The budget of the Employment Fund 2021 was confirmed. The Fund proposed increases in unemployment insurance contributions for 2021 to cover unemployment expenses.

09/20: Standard & Poor's (S&P) affirmed AA+ credit rating on the Employment Fund with a stable outlook.

Unemployment benefits paid by unemployment funds



Unemployment expenditures have decreased notably from the highs of 2020 and also from the 2021.

Fund's tools to adapt to economic cycles: Covid19-experience

	Independent role to propose feasible UICs
	The business cycle buffer
	Good access to debt financing
	Low risk investment portfolio

- Increase in unemployment insurance contributions ("UIC's") for 2021 (0,32 percentage points) and 2022 (0,20 percentage points)
- State contribution for temporary lay off allowances 333 MEUR (2020)
- Major utilization of the buffer fund in 2020 and 2021 totaling 1,035 MEUR
- Major debt program in 2020 with various transactions
- State guarantee for RCF's 2020
- Successful bond issues in 06/2020
- Scaling down of the investment portfolio and drawing liquidity in Spring 2020

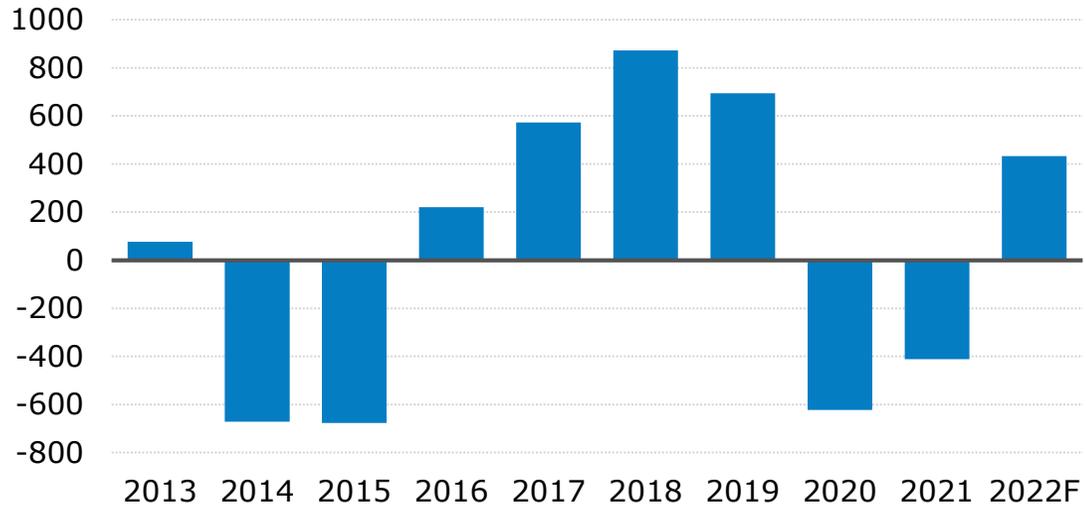
Key highlights of Employment Fund's financial development in 2022

	Independent role to propose feasible UICs
	The business cycle buffer
	Good access to debt financing
	Low risk investment portfolio

- Stable unemployment insurance contributions for 2023
- Small increase of 0,03 % for employers to finance the new restructuring protection scheme
- Estimated accumulation in net position of 400 MEUR in 2022
- Refinancing of existing RCF's during spring 2022
- Five banks 150 MEUR each, total 600 MEUR
- Improving liquidity position
- Negative investment return due to the increase in key interest rates

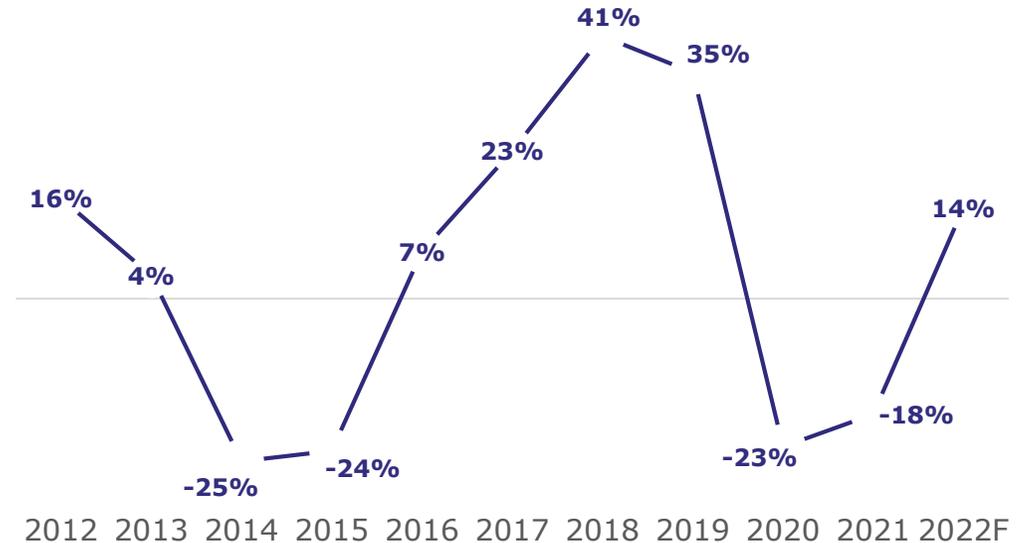
The buffer fund: secure liquidity over business cycles

P&L for the period
MEUR



The maximum surplus/deficit level of the buffer fund is the annual benefits paid by the Fund at an unemployment rate of 6%.

P/L % OF TURNOVER



The buffer fund is composed of the accumulated surplus or deficit from EF's operations. In 2022, the buffer fund will stand at EUR 1,000m (estimate 25th Aug 2022).

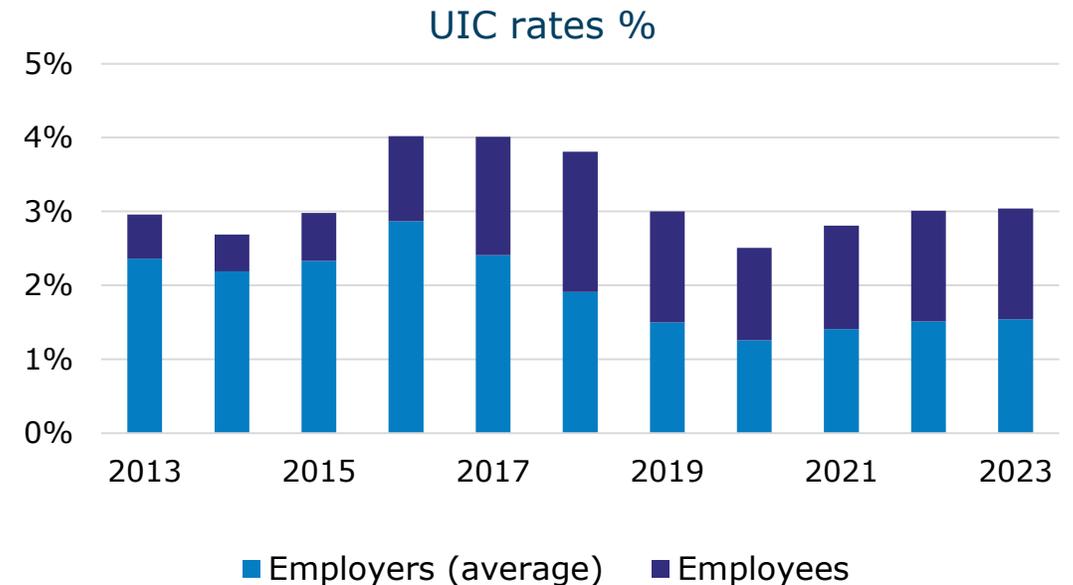
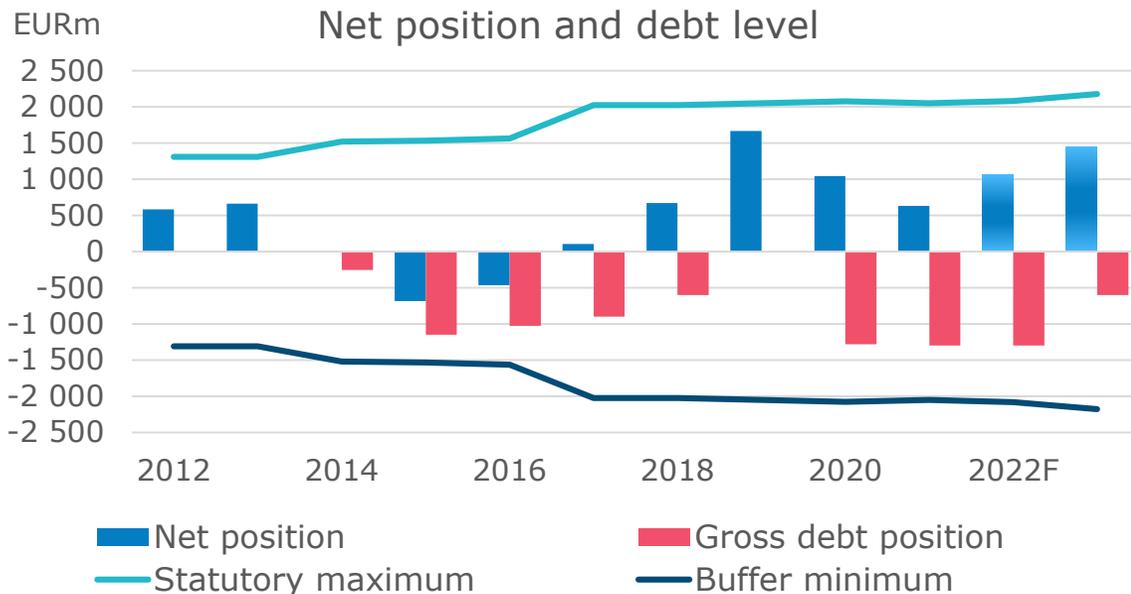
During periods of downturn, the buffer may turn negative, in which case the Employment Fund's liquidity must be ensured, at least in part, by debt financing.

Rates of UIC:s and net position

The Fund has the mandate to propose sufficient unemployment insurance contributions (UICs) to fund its operations.

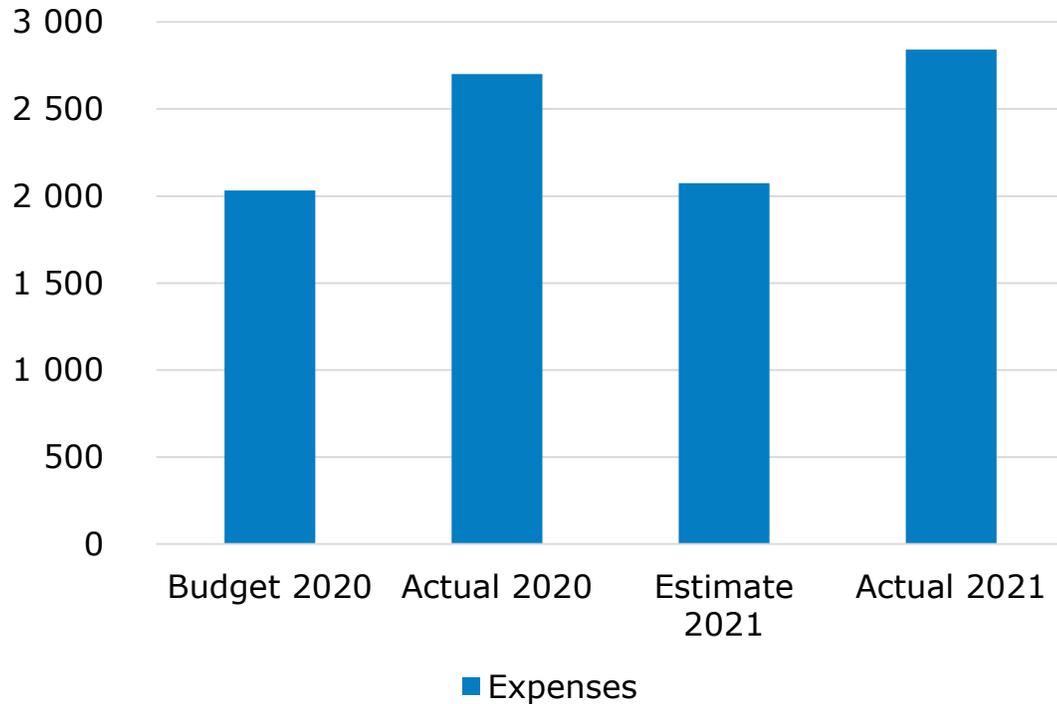
Covid19-pandemic (2020-2021) had a major impact in rising expenses and sizeable negative change in the net position of the Fund. Year 2022 has been a positive change in P/L development.

The current rates of UIC total 3,01%. The Employment Fund has submitted a proposal to MSAH for the total amount of the contributions to be increased in 2023 by 0.03 percentage points. Ten year average of the UIC level is 3,19%.

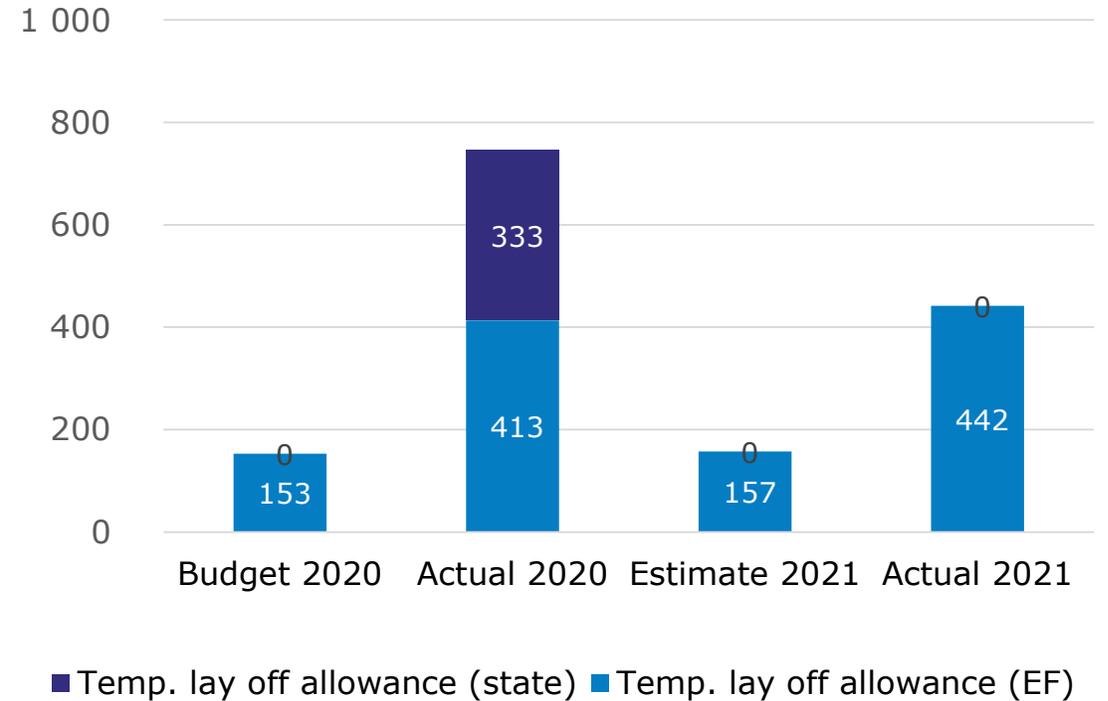


The Covid-19 impact on Employment Fund's finances

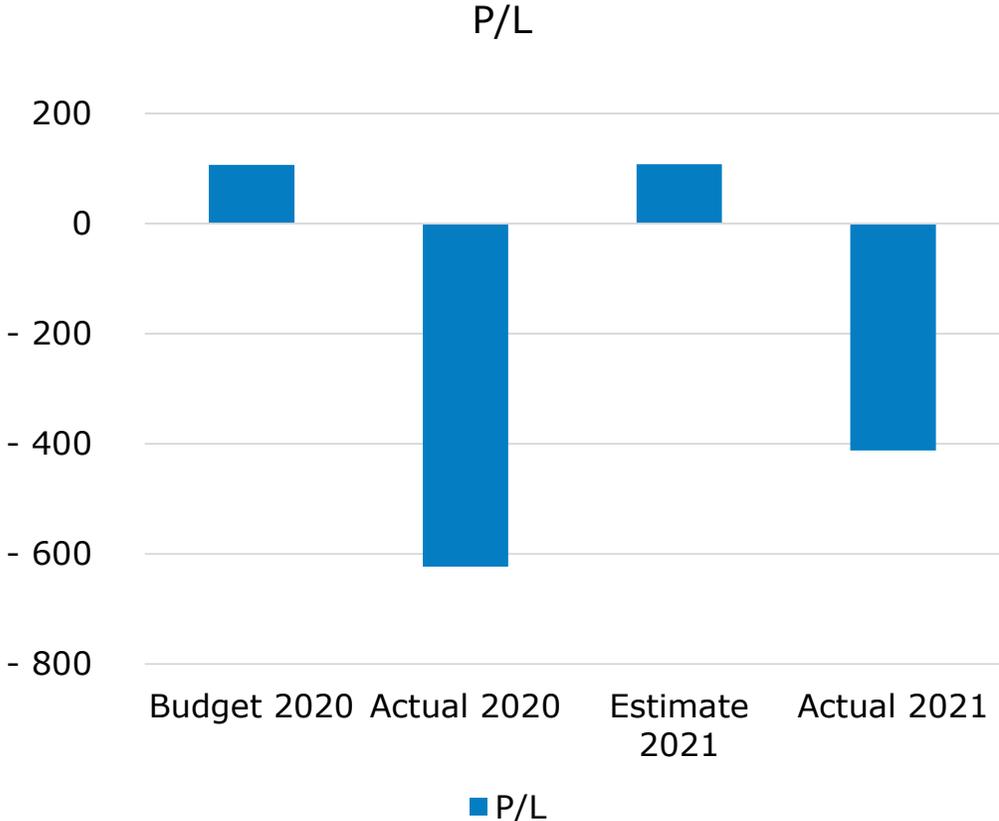
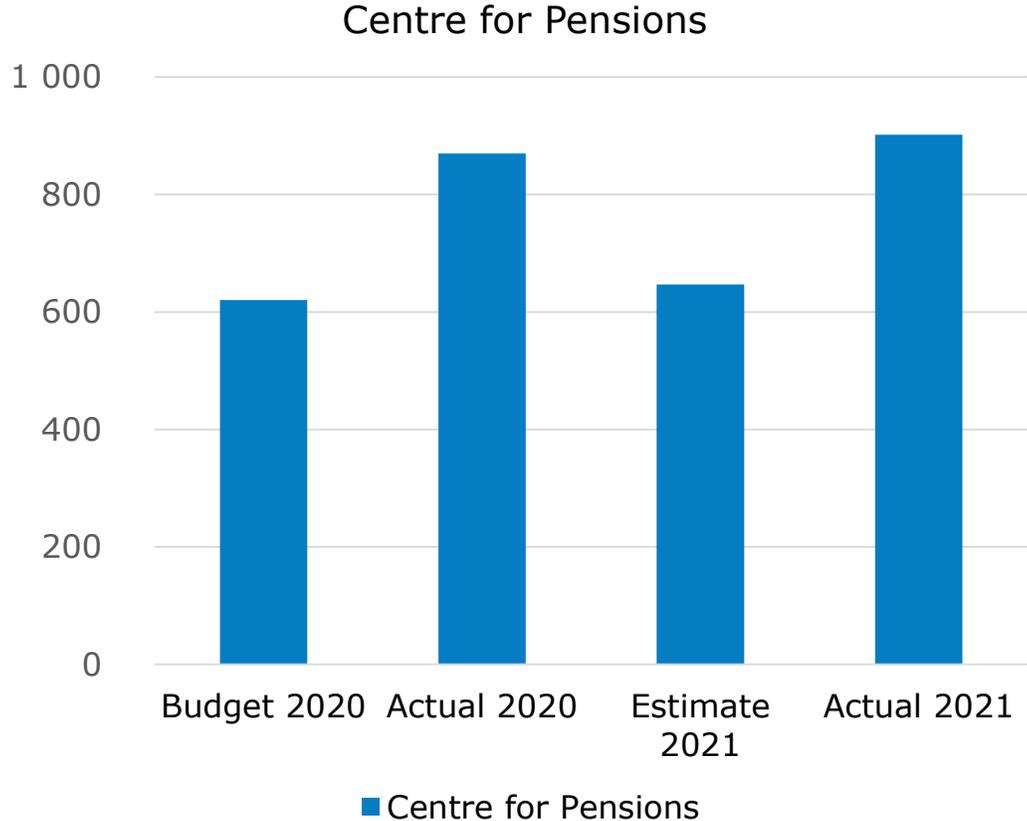
Expenses



Temporary lay off allowance

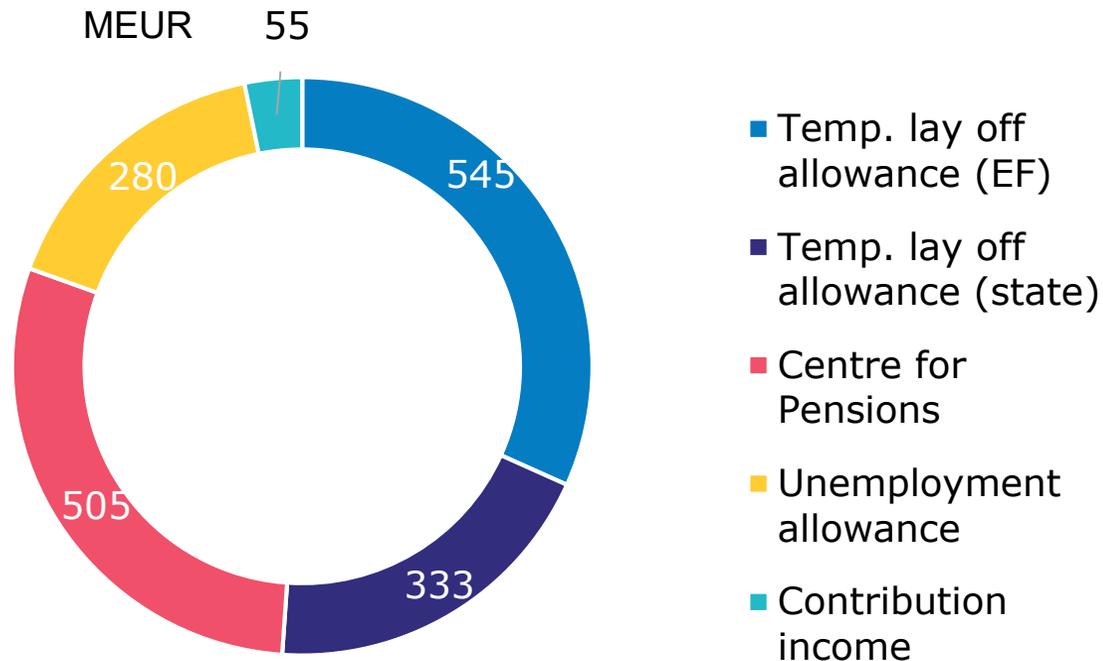


The Covid-19 impact on Employment Fund's finances



The Covid-19 impact on Employment Fund's finances

Covid-19 cost effect 2020-2021E total



- These figures adding up 2020 and 2021
- Biggest impact (32%) from temporary lay-off allowances
- Pension contribution 29 %
- Unemployment allowance 16 %
- UIC's collected 3 % less than budgeted (excl. contribution increase for 2021 worth 268 MEUR)

Good access to debt financing

The Employment Fund's debt funding consists of three pillars.

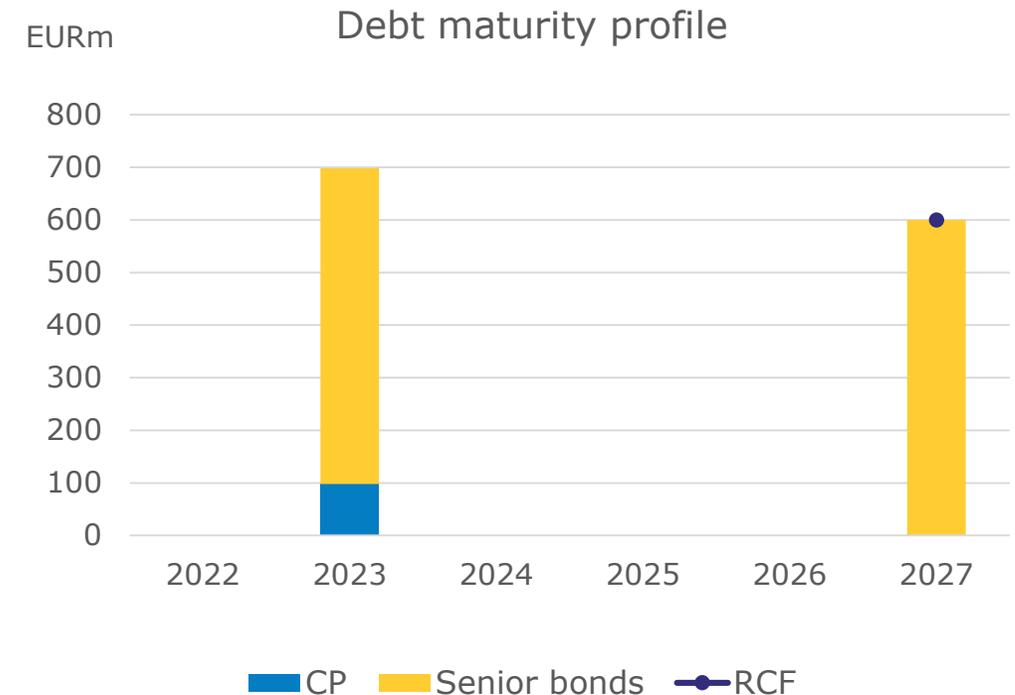
To cover the temporary liquidity deficits, the Fund uses short-term borrowing.

For this purpose, the Fund has a commercial paper programme totalling EUR 300m and a EUR 800m revolving credit facility (RCF), with five commercial banks.

The current debt program consists of the following parts:

CP program	– MEUR	300 (outstanding 100m €)
RCF	– MEUR	600 (unutilized)
Bond financing	– MEUR	1 200

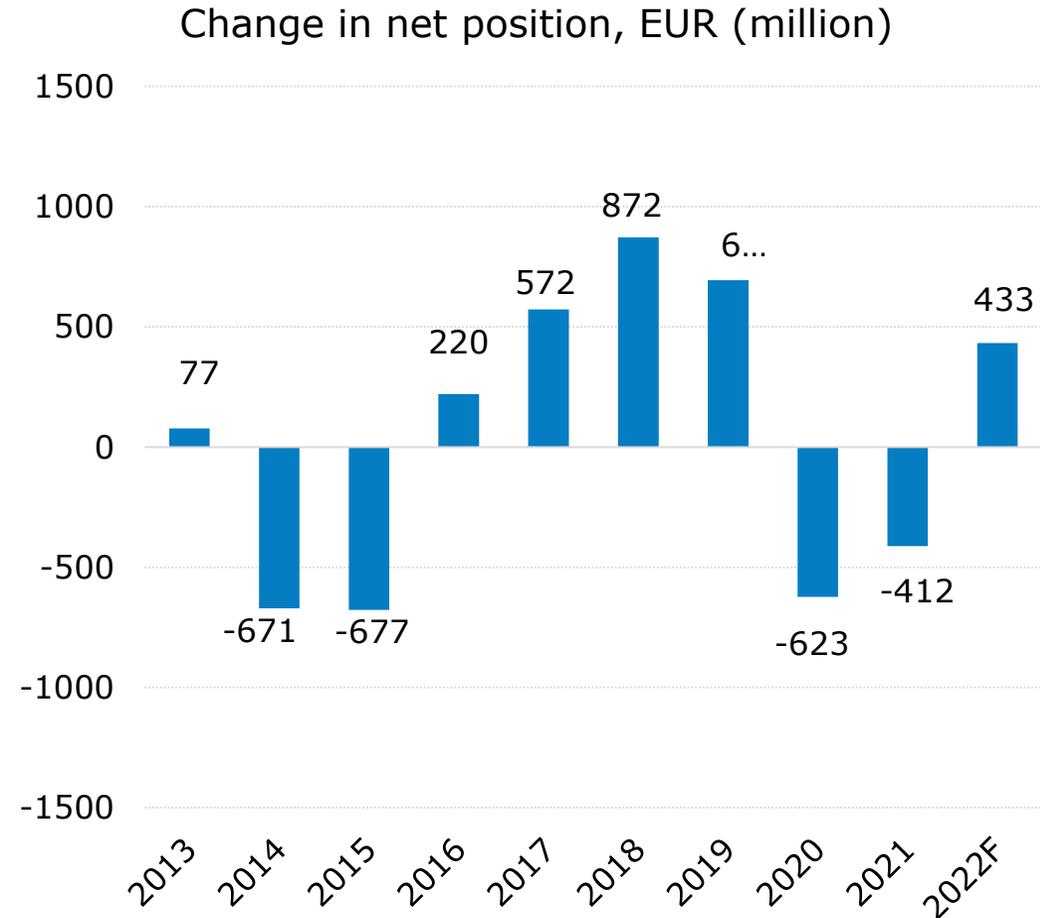
The RCF is a liquidity backup.



Decline in unemployment is expected to lead to a surplus in 2022

The Employment Fund bases its forecasts on predictions prepared by the Finnish Ministry of Finance and economic forecast institutions.

The Fund updated its forecasts in August 2022 and our change in net position is expected to be a surplus of EUR 433m for the year compared to the budgeted deficit of EUR 29m in August 2021.



Decline in unemployment is expected to lead to a surplus result in 2023

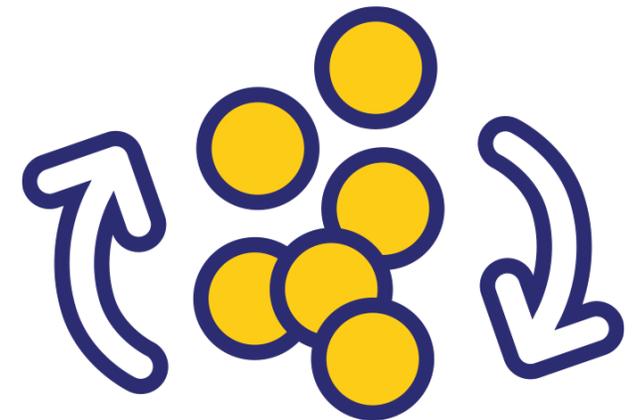
Scenarios 2023	Budget 2022	Estimate 2022	2023 Base	2023 MoF	2023 Risk
Unemployment rate %	7,1	6,8	6,9	6,5	8,3
Persons unemployed	275 000	261 000	265 000	265 000	340 000
Income, MEUR	2 701	2 761	2 887	2 892	2 719
Expenses, MEUR	-2 730	-2 327	-2 507	-2 469	-3 467
Change in net position, MEUR	-29	433	380	423	-748
Net position, MEUR	467	1 067	1 447	1 490	-170
Investment assets and cash, MEUR	1 207	1 479	1 159	1 202	1 162
Debt portfolio, MEUR	1 300	-1 300	-600	-600	-2 100
Change in debt outstanding, MEUR	0	0	-700	-700	800

The Fund has stated the Budget for 2023 and proposes no change in UICs apart from the minor increase in employer rates

Base line scenarios of the Fund and MoF are generating a surplus year in 2023.

European level financing of unemployment costs

- European level Unemployment re-insurance system
 - Proposal by Ms. Ursula von der Leyen, 2019
- SURE-mechanism, 2020
 - The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) is available for Member States that need to mobilize significant financial means to fight the negative economic and social consequences of the coronavirus outbreak on their territory.
 - Financial assistance up to €100 billion in the form of loans from the EU to affected Member States to address sudden increases in public expenditure for the preservation of employment.
 - Not used in Denmark, Finland or Sweden



Thank you!

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