

The Employment Fund

Investor presentation
May 2020



Työllisyysrahasto

Sysselsättningsfonden | Employment Fund

Key investment highlights

After its inaugural bond issues in 2015, Employment Fund issued two EUR Senior Unsecured benchmark bonds in 3 and 7 year tenors on 16 June 2020 to finance the Covid-19 related increase in unemployment benefits.

The Employment Fund (EF) is a financially strong issuer with a **AA+ rating from S&P.**

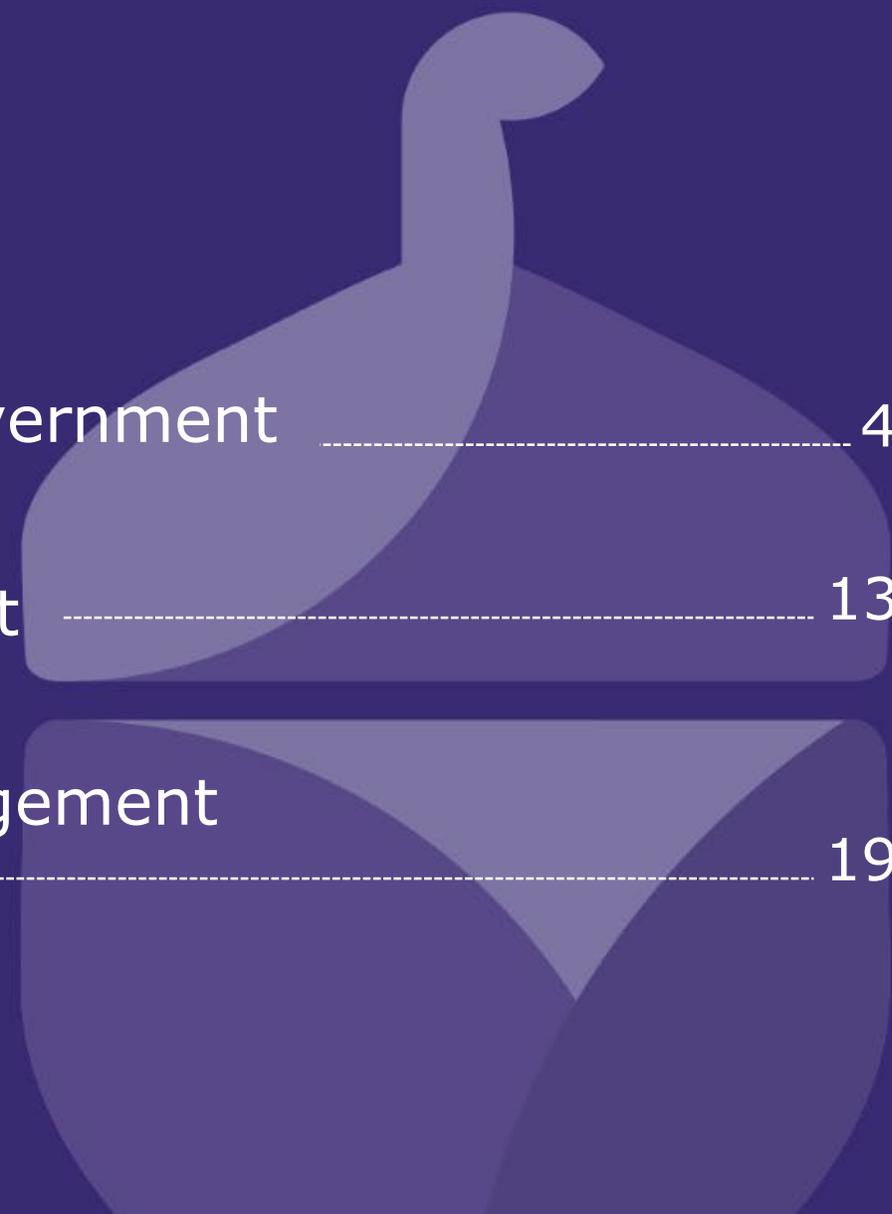
The Employment Fund is integrally linked to the Finnish state and serves an **essential function within the Finnish social security and unemployment benefit system.**

Plays a central role in meeting Finland's key economic, social and political objectives.

The EF's operations and functions are **fully determined by law.**

Unemployment insurance contributions are mandatory, and they **are set so that Employment Fund is able to fulfill its obligations.**¹⁾

Agenda

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1. The Employment Fund serves a critical role on behalf of the Finnish Government



The Employment Fund in brief

The Issuer is a Finnish public institution established by law on 1 December 1998.

The Employment Fund serves an essential role in the Finnish social security system as its customer base includes all employers and 17-64-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, and the Employment Fund is an organisation established by law and managed by the social partners.

KEY FIGURES IN 2019



EUR 3.4bn received

EUR 2.6bn received from employees and employers

EUR 0.7bn received from the Ministry of Social Affairs and Health

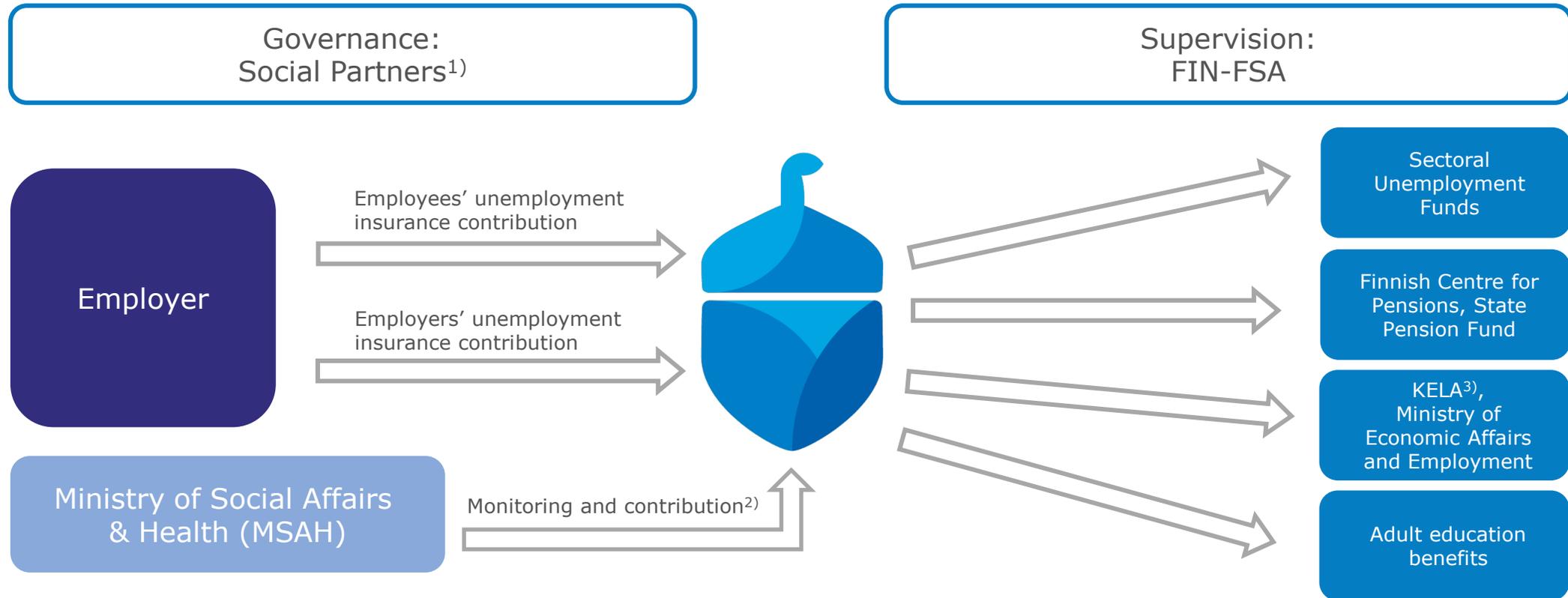
EUR 2.7bn contributed

EUR 1.6bn contributed to unemployment funds

EUR 0.6bn contributed to the Finnish Centre for Pensions

EUR 0.4bn contributed to various other social security segments in Finland

Stakeholders and flow of funds



The employer deducts the employee's unemployment insurance contribution in connection with each payment of wages.



The employer forwards the employee's and employer's contributions to the Employment Fund.



The unemployment insurance contributions are used for the financing of earnings-related unemployment and adult education benefits.

An integral link to the Finnish Government

The Employment Fund is part of the indirect public administration of Finland. It operates on behalf of the Government, providing a key public service.

Established through the **Finnish Act on Financing of Unemployment Benefits.**

This law determines The Employment Fund's operations and functions.

Additionally, the **Finnish Financial Supervisory Authority (FIN-FSA)** supervises EF, and the **Ministry of Social Affairs and Health (MSAH)** tightly monitors its operations.

The Finnish Government appoints the members of the Supervisory Board, the EF's highest managing body.



Essential part of the Finnish unemployment benefits system

- 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.

Unemployment benefits	Basic allowance	Earnings-related allowance
Eligibility	Min. 26-week ¹⁾ employment during 28 mo. before unemployment	Min. 26-week ¹⁾ employment during 28 mo. before unemployment; equally long membership of the unemployment fund
Funding	Finnish State	Finnish State, employers, employees
<i>Basic component</i>	-	<i>Finnish state</i>
<i>Earnings-related component</i>	-	Employers & employees²⁾ 
Benefit distributor	The Social Insurance Institution	Sectoral unemployment funds

Main tasks of the Employment Fund:

- 1) Imposition of mandatory unemployment insurance contributions and collection from employers and employees.
- 2) Earnings-related unemployment benefits financing.
- 3) Pay security and pension accruals financing during periods of unemployment.
- 4) Pay adult education benefits.

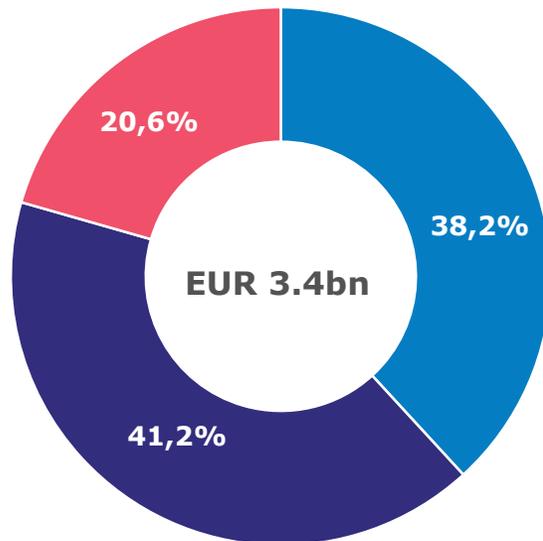
Contributions collected by EF cannot be used for any other purpose than statutory payments and the Issuer's administrative costs.

Sectoral unemployment funds pay statutory benefits.

The Fund plays an indispensable role in financing unemployment benefits.

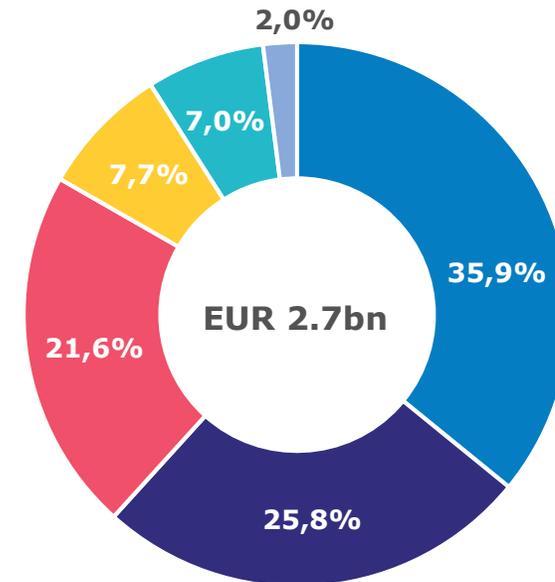
EF income and payments 2019

Income by contributor, 2019



- Employer's contribution
- Employee's contribution
- Contributions from MSAH

Payments by receiver, 2019



- Unemployment funds (EF)
- State contributions to unemployment funds
- Finnish Centre for Pensions
- KELA
- Adult education benefits
- Other

EF's legal framework

The Employment Fund cannot be declared bankrupt (Finnish Bankruptcy Act) as a part of the indirect public administration.

EF as a public institution:

Established by law, EF's operations and functions are determined by various laws.¹⁾ Unemployment insurance contributions (UICs) are mandatory for employers and employees.

EF also has the legal right to fulfil its obligations by incurring debt.

Enforcement and insolvency:

The level of unemployment insurance contributions are set so that EF is able to fulfil its obligations (Act on Financing of the Unemployment Benefits).²⁾

Government guarantee:

The Finnish Government may provide guarantees for EF's debt. EF has not requested the guarantee for the bonds.

1) Functions determined by: Act on Financing Unemployment Benefits, Act on Unemployment Funds, Unemployment Allowance Act, Act on Adult Education Benefits, Pay Security Act, Employment Contracts Act, Act on Training Compensation.

2) Subject to the approval of the FIN-FSA, the EF may also incur debt in order to secure its liquidity. If the EF's business cycle buffer turns negative, the EF may incur debt without a specific approval from the FIN-FSA.

Statutory importance



Unemployment benefits fully statutory:

Both basic allowance and earnings-related allowance are legislative benefits (Act on Financing of Unemployment Benefits).

The legislation covers everything from unemployment insurance contribution collection to benefit payments.

When legislative conditions are met, the unemployed or temporary laid-off person is entitled to basic and/or earnings-related allowance.

Part of Finnish pension insurance system:

EF is responsible for the financing of pension accrual during a person's unemployment or adult education period (Finnish Employees Pension Act).

Adult Education benefits are fully statutory.

Successful management during the Global Financial Crisis

The strength of the Employment Fund was tested in 2009:

- Finland's GDP decreased by 8%, unemployment surged, and benefits increased rapidly
- Employment Fund proposed a substantial increase in contributions from employers and employees
- The Fund was strongly supported by the Government of Finland

The Government of Finland took an active role with 4 key steps:

- 1. Established a tripartite committee** MSAH, Employer Associations, and Employee Unions
- 2. Guaranteed all loans needed** for financing Employment Fund's operations in case of indebtedness
- 3. Committed to provide direct financing,** should EF's net debt rise above the statutory limit
- 4. In addition it financed temporary layoff benefits,** totaling EUR 337m in 2010-2013

The Employment Fund emerged from the crisis successfully and together with the Government of Finland provided full support to the unemployed.

2. The Finnish economy and labour market



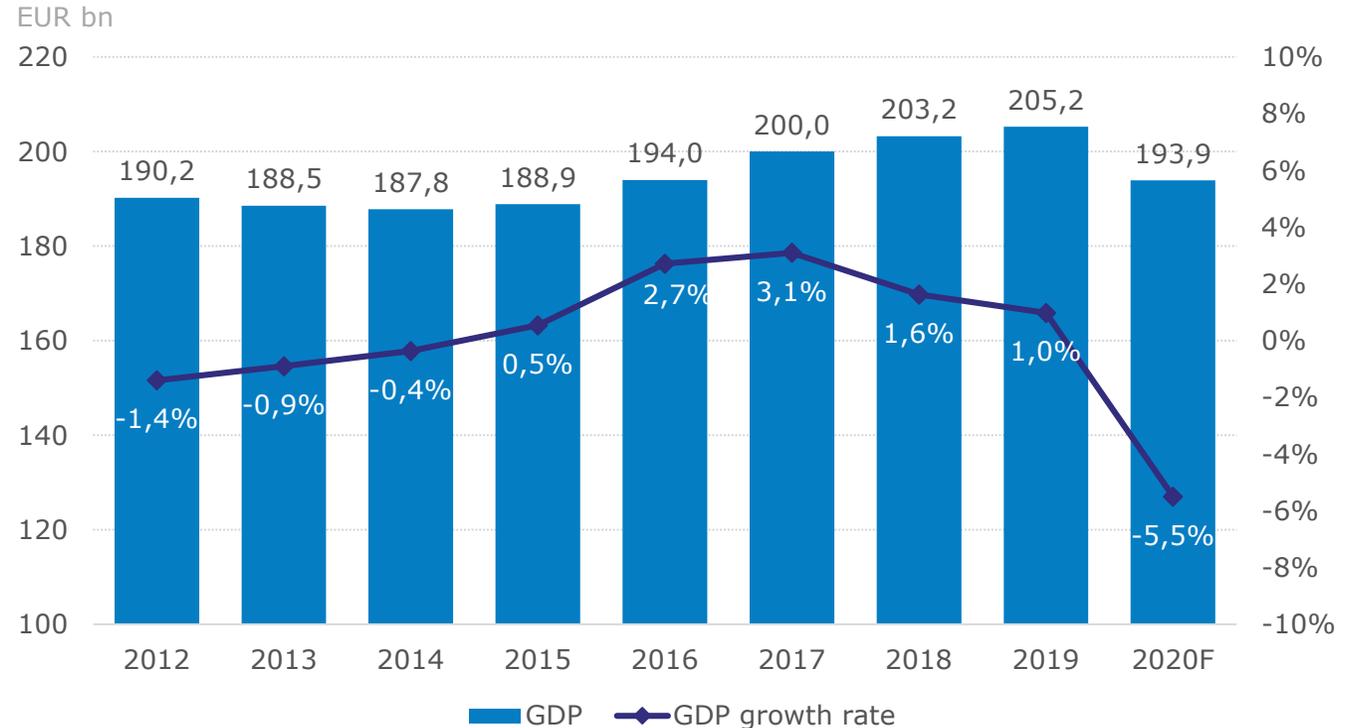
Covid-19 impact on GDP estimated to be over 5% in 2020

Finnish economy improved steadily in 2012-2019: GDP increased at CAGR of 0.7% during that period.

The Finnish Ministry of Finance forecasts Finland's GDP to contract by 5.5% in 2020, while the European Commission forecasts Euro Area's GDP to contract by 7.8%.

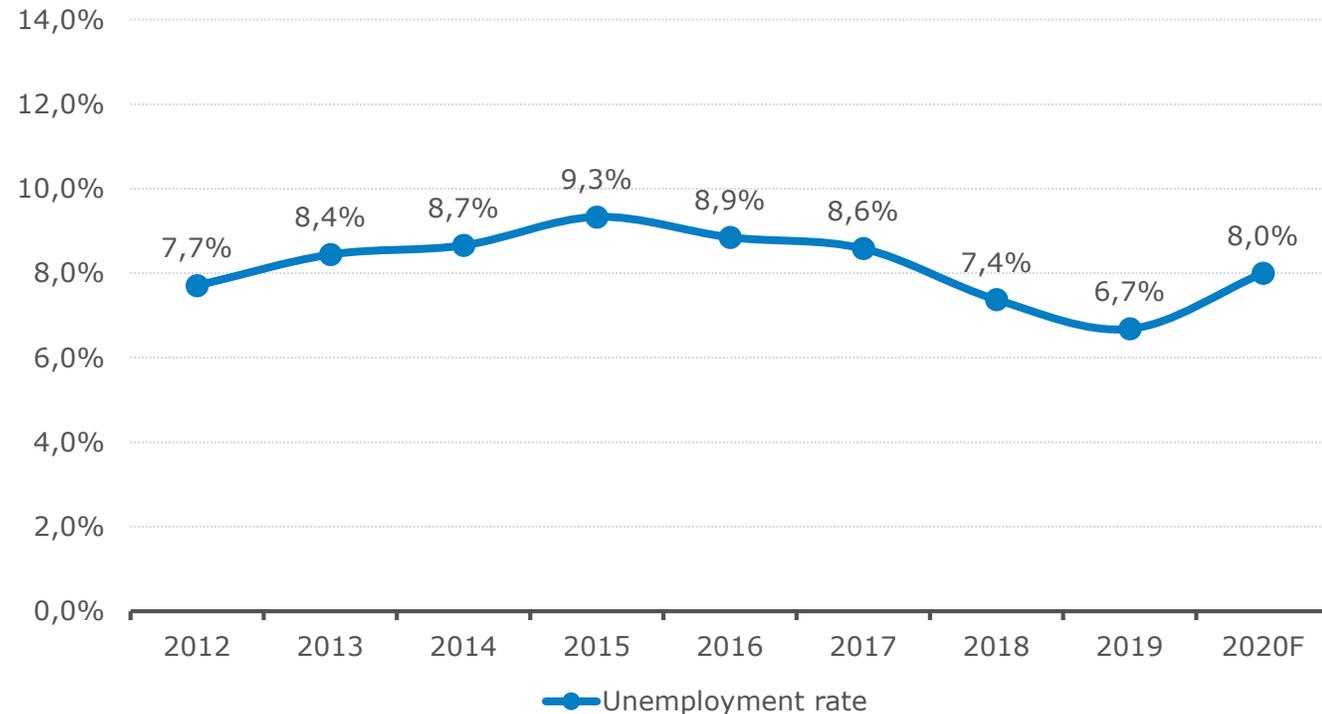
Economic recovery is currently forecasted to begin in 2021 by MoF.

Finland's GDP and GDP growth rate



Positive labour market dynamics prior to Covid-19

Unemployment rate in Finland



Since 2015 the unemployment decreased from 9.3% to 6.7%.

The Ministry of Finance forecasted in April that unemployment will increase to 8.0% in 2020 due to Covid-19.

The labour market in Finland enables laying off people quickly for a period of time, whereas rules are stricter for laying off people permanently. People who are laid-off for a temporary time period still receive unemployment benefits.

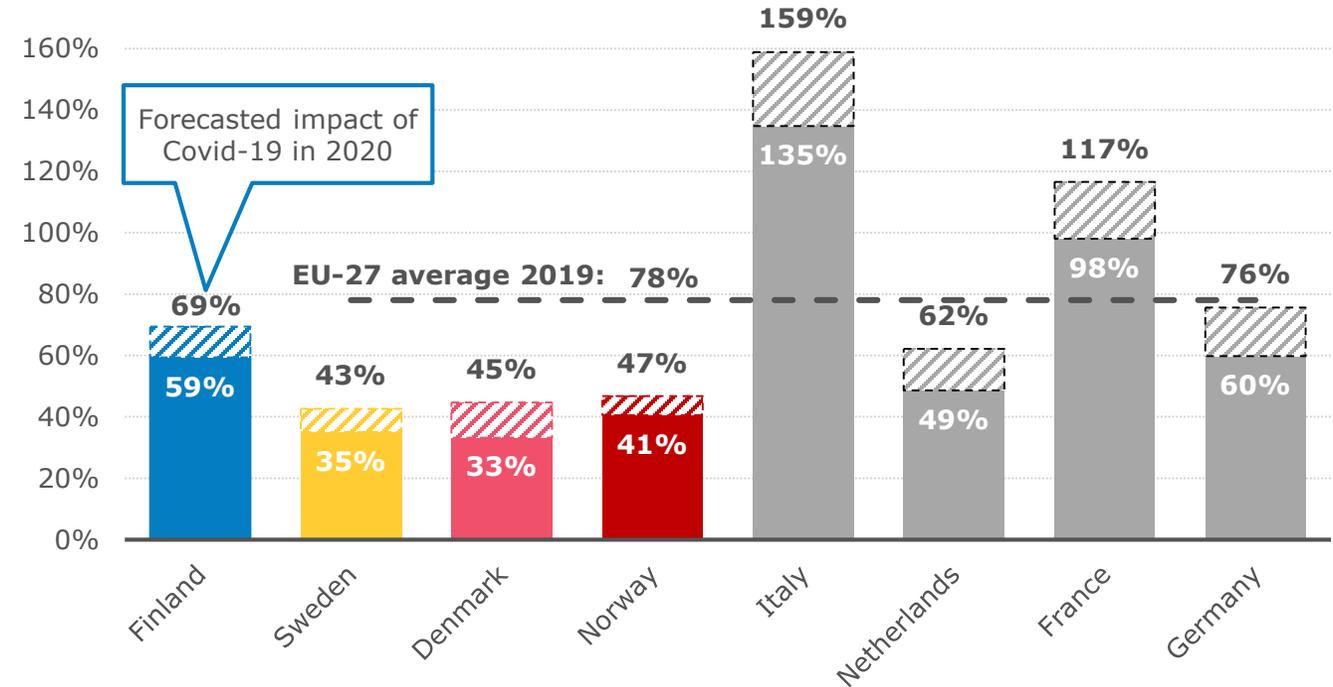
This system provides flexibility to employers, and numerous countries (e.g. Sweden, Denmark, France, Belarus) have tried to implement a similar structure after Covid-19.

Finland's Government debt is low by European standards

Finland's debt-to-GDP ratio in 2019 is higher than in other Nordic countries, but low by European standards.

In April 2020, the Finnish Ministry of Finance forecasts Finland's Government debt-to-GDP to increase to 69% in 2020, remaining lower than the EU-average of 78% in 2019.

European countries: Debt-to-GDP ratio
General Government gross debt/GDP in 2019 and 2020E

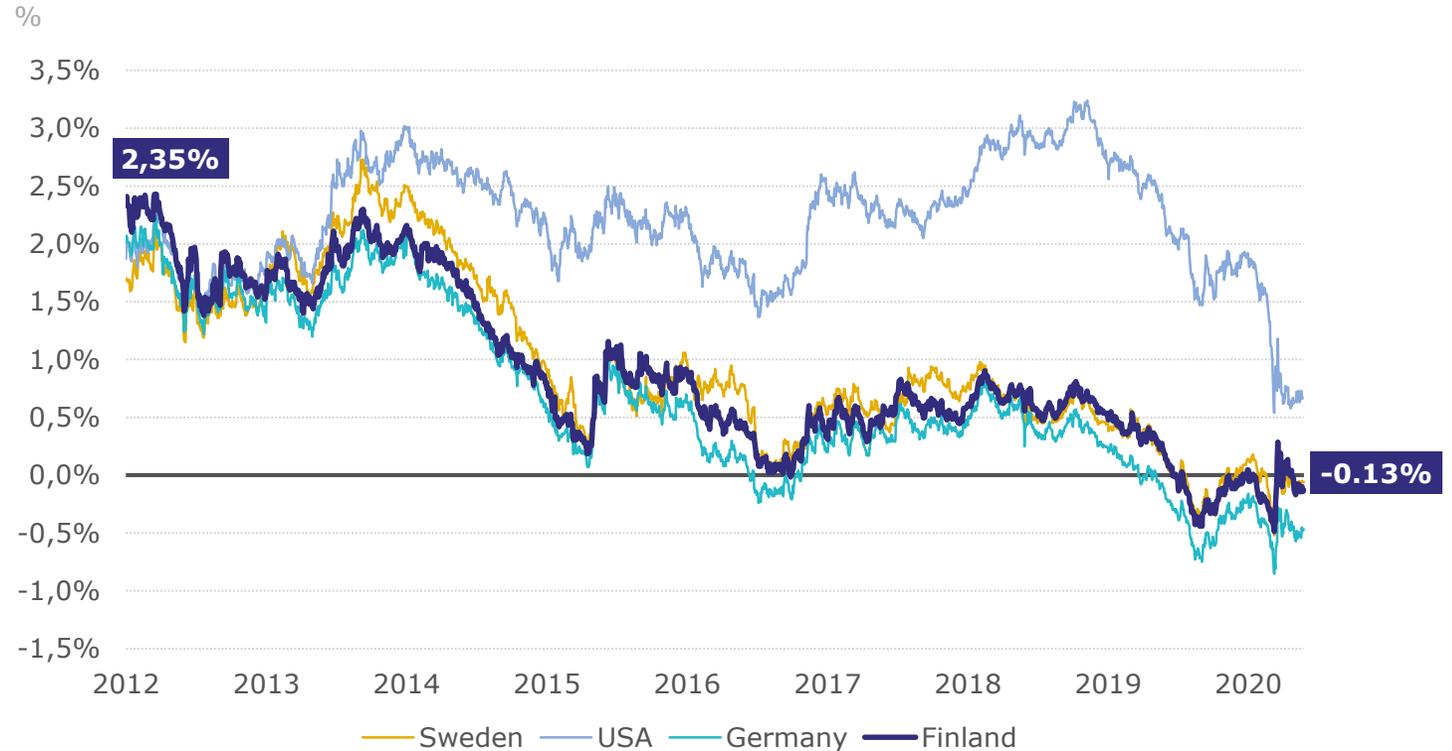


Finland has relatively low debt servicing costs

Finnish Government Bond yields have decreased significantly over the past years, and are today in negative yield territory.

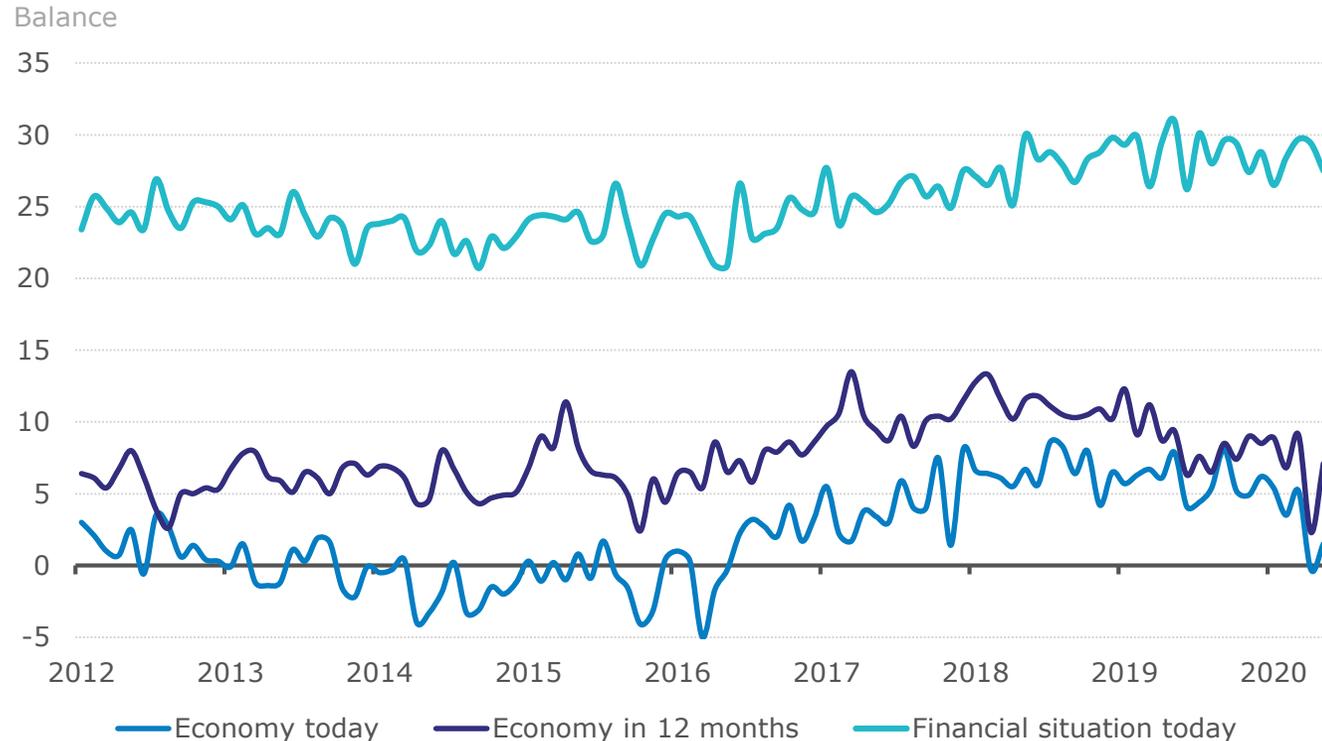
The Government of Finland is rated Aa1 by Moody's, AA+ by S&P and AA+ by Fitch. All have stable outlook.

10-year Government bond yields



Consumer confidence recovered in May 2020

Consumer confidence in the economy and financial situation



Consumer confidence in Finland's economy rebounded in May 2020 from the previous month.

Consumers' assessments of their own financial situation remains robust.

3. The Employment Fund's liquidity management and financial outlook



EF's tools to adapt to economic cycles



The business cycle buffer



Independent role to propose feasible UICs¹⁾



Good access to debt financing



Low risk investment portfolio

The buffer fund: secure liquidity over business cycles

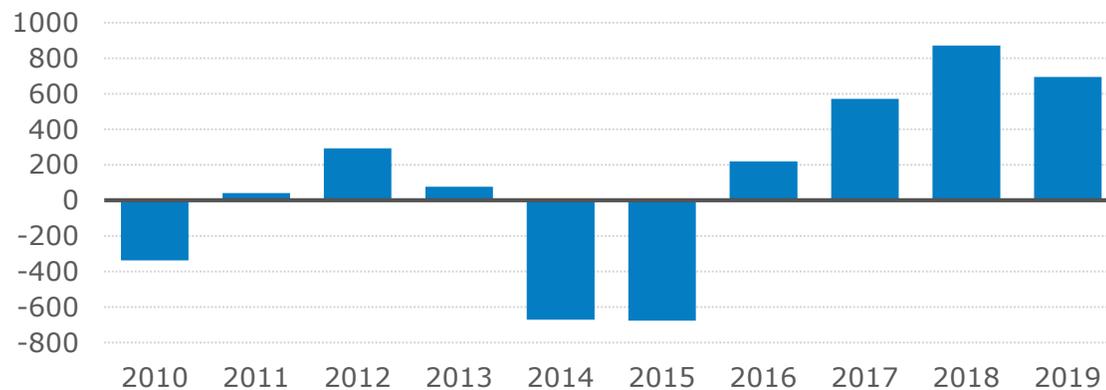


The maximum surplus/deficit level of the buffer fund is the annual benefits paid by EF at an unemployment rate of 6%.¹⁾

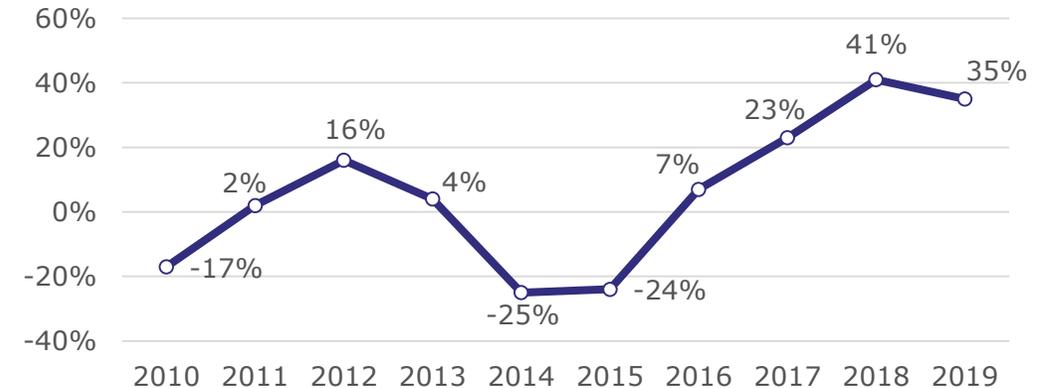
The buffer fund is composed of the accumulated surplus or deficit from EF's operations. **In 2019, the buffer fund stood at EUR 1,668m.**

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.

P&L for the period
EURm



P&L of turnover
%

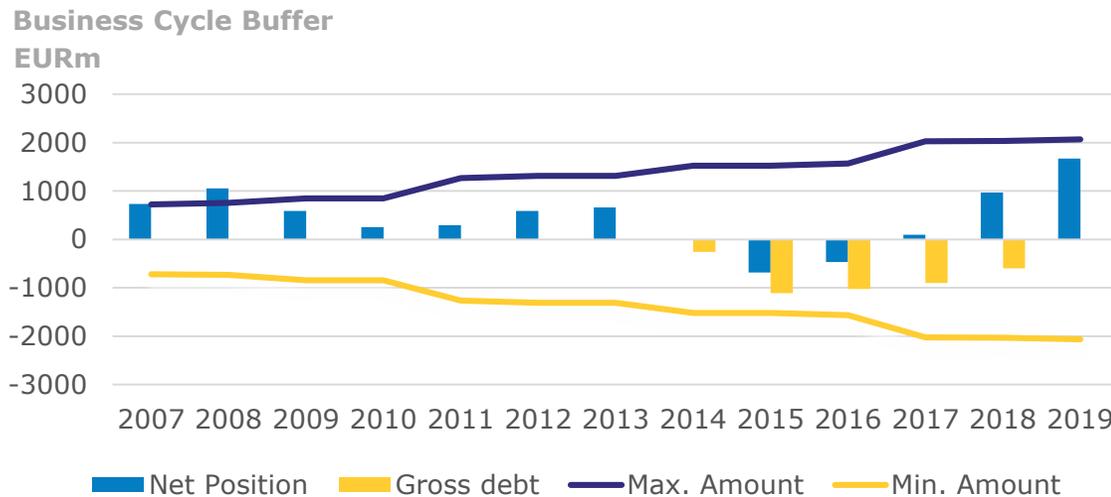




Independent role to propose feasible UICs

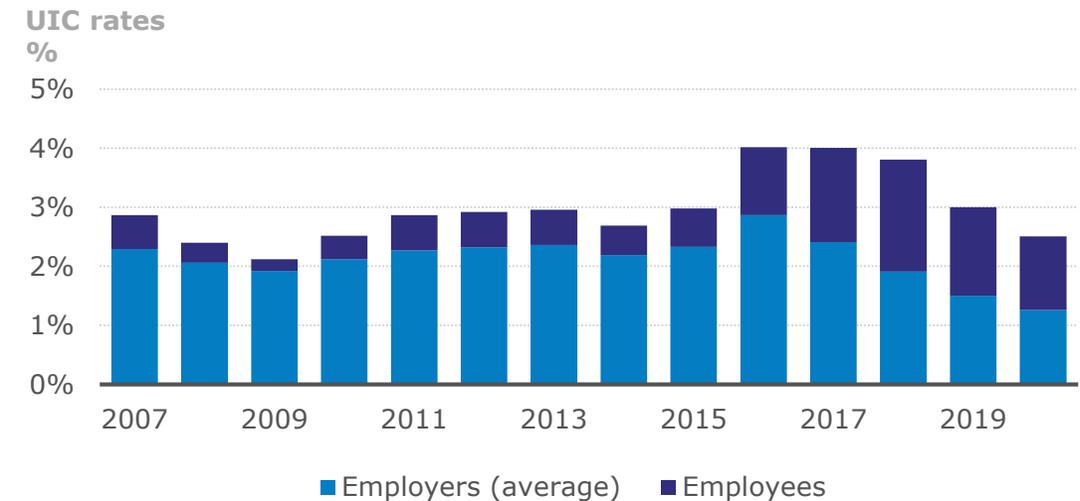
The EF has the mandate to propose sufficient unemployment insurance contributions (UICs) to fund its operations.

Over the last years, the improved economy and operational surplus have closed the liquidity gap, and has enabled a reduction of UIC rates.



The current rates of UIC total 2.5%. The EF has submitted a preliminary proposal that the contributions should be increased in 2021:

- **0.7–1.5 percentage points in total for 2021**, if the state contributes to the financing of temporary lay-off costs in 2020 and 2021
- **1.0-2.0 percentage points in total for 2021**, if the state does not provide financial support.



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.

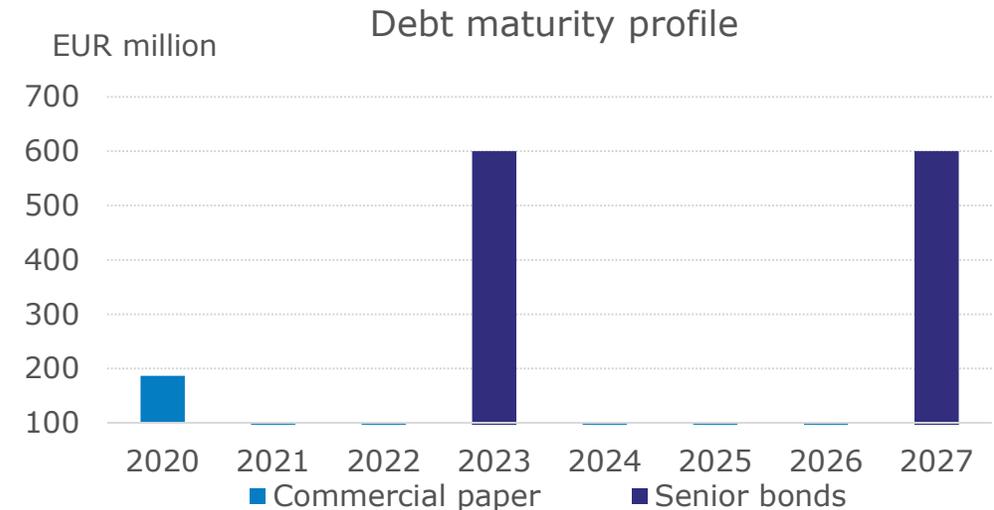
For this purpose, the Fund has a commercial paper programme totalling EUR 300m and a EUR 800m revolving credit facility (RCF), with five commercial banks.

Any debt financing is primarily raised in the European debt capital markets and under the domestic commercial paper programme.

The Employment Fund's bonds are eligible for the Eurosystem's Public Sector Purchase Program since 2015.

The current debt program consists of the following parts:

- CP program – EUR 300m
- RCF – EUR 800m (state guaranteed)
- Bond financing – EUR benchmark 3Y EUR 600 million
– EUR benchmark 7Y EUR 600 million



Low risk investment portfolio



The supervisory board states in the investment guidelines that EF must maintain sufficient liquidity in the investment portfolio.

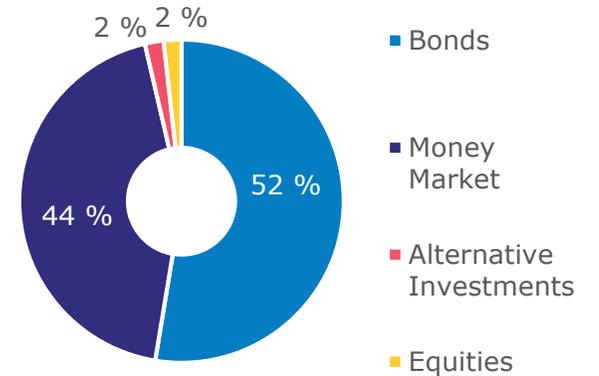
The required rate of return for the Fund's investment assets cannot be high at the expense of risk.¹⁾

The business cycle buffer of the Employment Fund and other assets of the Fund shall be invested in a manner that generates and secures income while taking into account the Fund's liquidity.

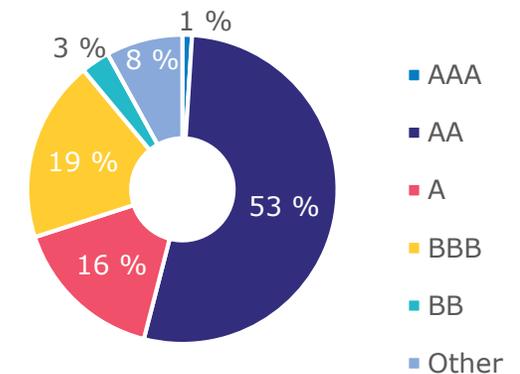
In order to secure liquidity, an amount corresponding to one month's expenditure shall be invested in fixed income instruments with less than a one-year tenor. This represents a liquidity of EUR 400m.

The value of investment and financial assets possessed by the Employment Fund amounted to EUR 1,019m at the end of 2019.

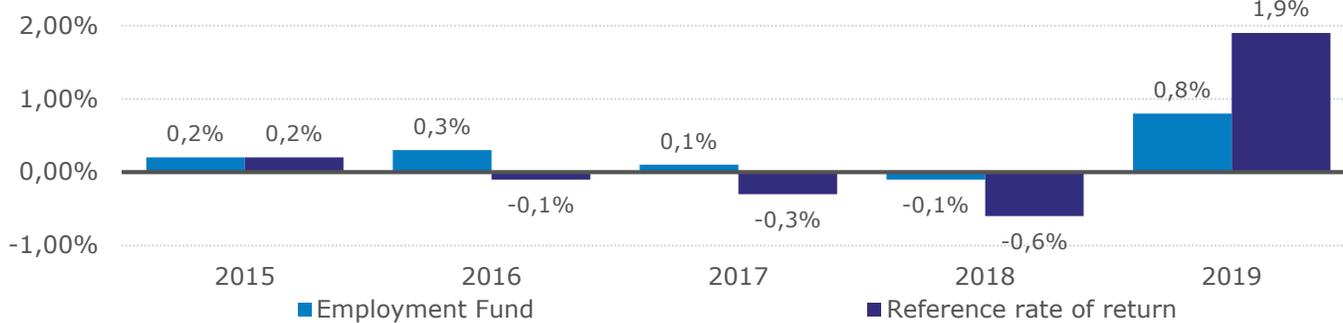
Asset allocation 31.12.2019



Investment by rating 31.12.2019



Return on investments



1) The Fund aims to generate an investment return in excess of the return of the money market and short term fixed income investment markets.

Increasing unemployment is expected to lead to a deficit in 2020

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

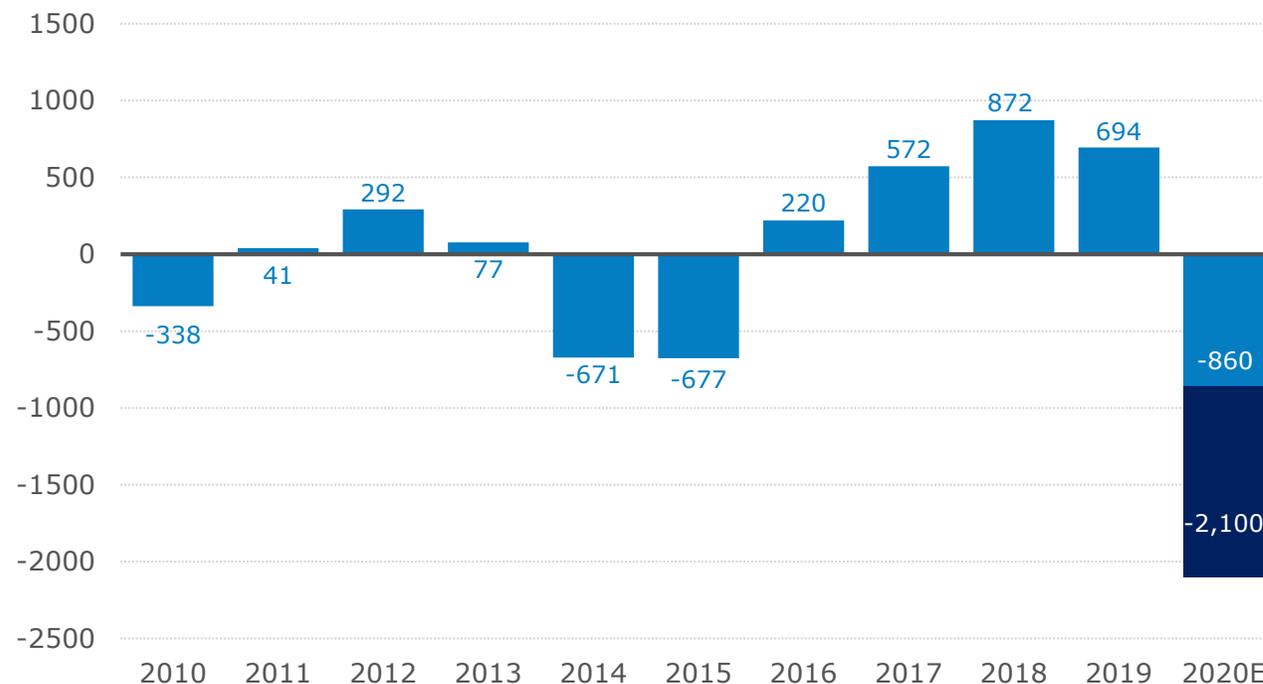
EF updated its forecasts in May 2020 and the deficit is expected to be between EUR 860–2,100m for the year compared to the budgeted surplus of EUR 100m in August 2019.

This forecast assumes that the total amount of unemployed persons in Finland will increase by 60–130% during the year, corresponding to an unemployment rate of 8.0%-13.0%.

The estimate includes both unemployed and temporarily laid-off people.

P&L for the period

EURm



Appendix



Työllisyysrahasto

Sysselsättningsfonden | Employment Fund



Renamed the Employment Fund in 2019

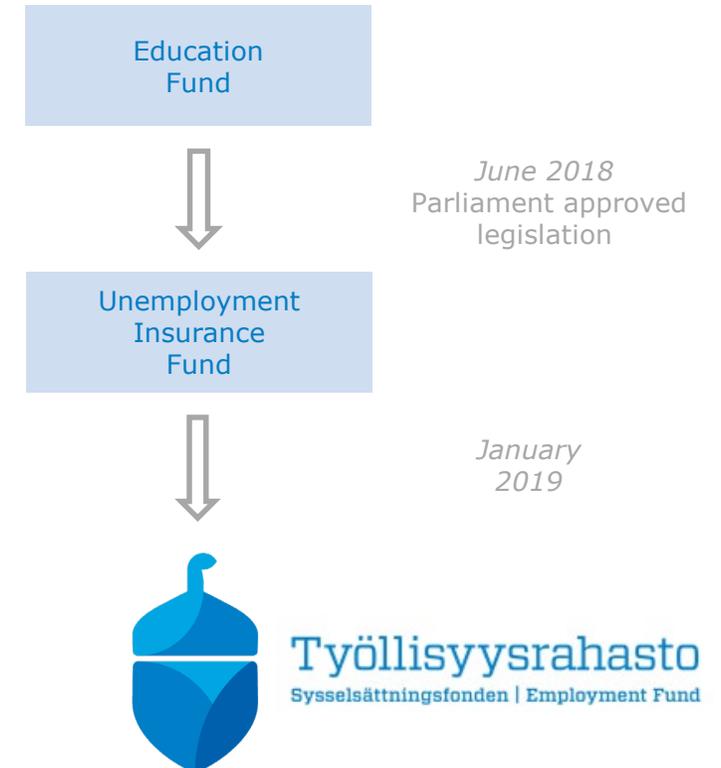
On 1 January 2019, the Unemployment Insurance Fund merged with the Education Fund, and the name of the Unemployment Insurance Fund was changed to the Employment Fund.

The Unemployment Insurance Fund financed the benefits paid by the Education Fund already before the merger, thus the financial liabilities of the Employment Fund did not increase as a result of the merger.

Although the Legal identity remained the same as the Unemployment Insurance Fund's (same company ID, same legislation), the duties of the Education Fund transferred under the Act on Financing of the Unemployment benefits.

Likewise, the Education Fund's obligations transferred to the Employment Fund. The Education Fund paid benefits in a total amount of approximately EUR 185m in 2018.

There was no change in the relation to the Finnish Government or in the supervision on the Employment Fund as a result of the merger.



Organization



The Finnish unemployment benefit system (1/2)

The table breaks down the key features of the basic allowance and earnings-related allowance.

The Employment Fund is responsible for imposing and collecting the unemployment insurance contributions for the earnings-related allowance.

Earnings-related unemployment allowance is available to people who belong to a sectoral unemployment fund and can be paid for up to 300–500 days.

	Basic allowance	Earnings-related allowance
Eligibility	Min. 26-week ¹⁾ employment during 28 months before unemployment	Min. 26-week ¹⁾ employment during 28 months before unemployment; equally long membership of the unemployment fund
Funding	Finnish state	Finnish state (basic component) and employers and employees (earnings-related component). In addition, approximately 5.5% is financed by the members of the sectoral unemployment funds.
Benefit distributor	the Finnish Social Insurance Institution (KELA)	Sectoral unemployment funds
Amount	EUR 724 / month	Typically EUR 1,250–2,000 / month (including the basic- and the earnings-related component)
Benefit duration	Max. 300–500 days	Max. 300–500 days

1) Temporarily 13 weeks due to Coronavirus.

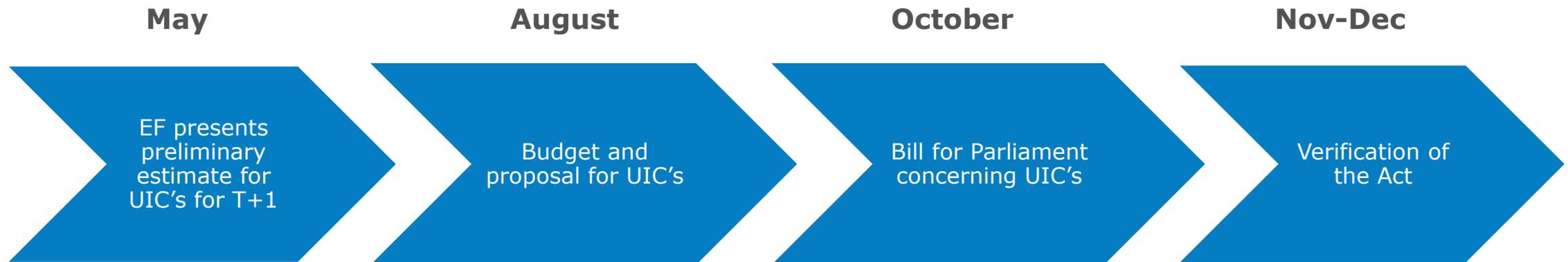
The Finnish unemployment benefit system (2/2)

EF makes **a proposal for the level of unemployment insurance contributions** (UICs) to the Ministry of Social Affairs and Health each year.

This **proposal is not binding for either the ministry or parliament**, but the Finnish parliament has never deviated from the UIC levels proposed by the Issuer.

The percentages of UICs for next calendar year are set annually by the Finnish Parliament by amending the Finnish Act on Financing of Unemployment Benefits.

When drafting modifications to EF's functions or funding, the **Ministry of Social Affairs and Health also hears the social partners' views**.



EF governance, supervision and reporting

The role of MSAH¹⁾:

- Maintain and develop legal framework for EF activities. Verifies the approval for unemployment insurance contributions (UICs) submitted by EF on a yearly basis.
- Draw the Government proposal for the Parliament concerning UIC rates.
- Monitor of UICs and business cycle buffer assets based on the EF's proposal.

The role of social partners:

- Propose candidates to be appointed to the Supervisory Board by the Government.
- Propose candidates for the Board of Directors to be appointed by the Supervisory Board.
- In tripartite negotiations, they take into account the role, duties, function and financing of EF.

Reporting obligation to MSAH, FSA and MoF:

- Maintain and develop legal framework for EF activities (MSAH).
- Monitor of unemployment insurance contribution rates (UIC) and buffer fund submitted by EF (MSAH).
- Monitor, together with EF, the usage of State financing of Unemployment insurance benefits (MSAH).
- Approve the indebtedness of EF in securing liquidity (FSA).

EF reports to the Ministry of Finance concerning the usage of state guarantee and operational cash flows.

Compliance and Auditing:

- EF develops internal control mechanisms and has set up risk manager and compliance officer positions.
- Audit committee started in 2019.
- KPMG external auditors audits EF.
- BDO submits the internal auditing function.
- Accounting and Financial statements by IFRS standards since 2014.

Employment Fund historical performance

KEY FIGURES	2015	2016	2017	2018	2019
Employer Contribution Income	1,626	2,043	1,769	1,458	1,238
Employee Contribution Income	490	870	1,243	1,519	1,379
Government Contribution, Funds	1,142	1,102	945	774	688
Liability Component Income	73	66	54	50	39
Net Financial Income	-1	-4	-5	-7	8
TOTAL INCOME	3,330	4,077	4,006	3,794	3,353
Unemployment Funds	-1,703	-1,581	-1,320	-1,068	-954
Government Contribution, Funds	-1,142	-1,102	-945	-774	-685
Finnish Centre for Pensions	-900	-846	-768	-620	-577
Social Insurance Institution of Finland (Kela)	-121	-167	-208	-228	-206
Adult Education Benefits	-98	-116	-151	-187	-187
Ministry of Economic Affairs and Employment	-21	-23	-19	-20	-24
State Pension Fund	-8	-11	-13	-12	-10
Insurance Companies	-1	-1	0	0	0
Administrative Expenses	-10	-12	-11	-13	-19
TOTAL EXPENSES	-4,003	-3,859	-3,435	-2,921	-2,659
INCOME FOR THE PERIOD	-673	220	572	872	694
NET POSITION*	-686	-466	106	969	1,668

* The net position for 2019 includes the value of the net assets of EUR 9m of the Education Fund on 31 December 2018.

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