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FINNISH CENTRE FOR PENSIONS, REPORTS

EXECUTIVE SUMMARY

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Contribution of the Unemployment Insurance Fund to the earnings-related pension system in 2005–2015

Pension accrues from earnings-related periods of unemployment and education as well as from periods of job alternation leave. The basis for pension accrual is a salary, which, depending on the benefit, constitutes 55–75 per cent of the earnings on which the benefit amount has been calculated. Pension accrues from these earnings at 1.5 per cent from the beginning of the month following an individual's 18th birthday to the end of the month during which the 68th birthday occurs. For periods of earnings-related unemployment benefit, however, earnings-related pension accrues up until the end of the month during which the individual has turned 63. In its current form, pension has accrued from periods of social benefit since 2005. Before 2005, periods of earnings-related unemployment and education accrued an increment for credited periods that was then used to raise the pension amount.

The costs of pension provision accrued based on earnings-related benefit periods are covered by a contribution of the Unemployment Insurance Fund, itself funded by the unemployment insurance contributions of employers and wage earners. The Unemployment Insurance Fund pays a contribution to the Finnish Centre for Pensions which, in turn, distributes the funds onwards to authorized pension providers. The distribution is done according to the following pension acts: the Employees Pensions Act, the Seafarers' Pensions Act, the Local Government Pensions Act and the Evangelical-Lutheran Church Pensions Act. Parts of the funds are also distributed to the Bank of Finland, the Central Church Fund of the Orthodox Church and the Social Insurance Institution of Finland (insofar as it handles pension provision for its employees). The Unemployment Insurance Fund contribution has a diminishing effect on earnings-related pension contributions. The authorised pension providers do not consolidate the Unemployment Insurance Fund contribution. It is used, for example, for the payment of pensions that are the joint responsibility of the pension providers, in which pension shares accrued from unsalaried periods are also included.

The benefits received by wage earners during periods or earnings-related daily allowance, job alternation compensation and adult education allowance form the basis of the Unemployment Insurance Fund contribution. Of the earnings forming the basis of a benefit, only the pensionable component is taken into account. The contribution paid based on the earnings on which the benefit is paid is to correspond to the average contribution under the Employees Pensions Act.

The Unemployment Insurance Fund contribution is paid in advance during the year to which the contribution is targeted. The final contribution is calculated in the summer of the following year. The adjustment contribution is the difference between the realized payment and advance payments

already paid, and accounted for between the Finnish Centre for Pensions and the Unemployment Insurance Fund. If the final Unemployment Insurance Fund contribution is larger than the advance payments, the Unemployment Insurance Fund pays an adjustment contribution to the Finnish Centre for Pensions, and vice versa. The Finnish Centre for Pensions reimburses the advance payments to the pension providers and clarifies adjustment contributions between the pension providers.

The unemployment benefit scheme covers the costs incurred for the earnings-related pension scheme from earnings-related unsalaried benefits already at the pension accrual stage. That is why the size of annual contributions is strongly affected by the unemployment statistics of each year. In this report we are looking at the time period 2005–2015.

During the years covered by this report, certain changes have occurred in the principles determining the Unemployment Insurance Fund contribution. Since 2011 the earnings forming the basis of the contribution have no longer separately included the employee unemployment insurance contributions and holiday bonus. Also since 2011, the share of benefit days during non-accruing pension contingency years has no longer been removed from the calculation of contribution amounts. Since 2010, the earnings forming the basis of the job alternation compensation have been taken into account at 55 per cent rather than the previous 75. The training subsidy and the training allowance for the unemployed have been combined into an active period unemployment allowance since 2010. That is why 75 per cent of the earnings that form the basis of the benefit are now taken into account, compared to the previous 65 per cent.

However, the impact of changes in the principles that determine the Unemployment Insurance Fund contribution on the actual sum has been small compared to the impact of increasing unemployment. The contribution amount has also been affected by the growing average earnings level of persons receiving earnings-related daily allowance. Between 2005 and 2015 the contribution has almost doubled, from EUR 445 million to 865 million. The number of benefit days taken into account in contributions between 2005 and 2015 has risen by 26 per cent, and earnings forming the basis of the benefit by 40 per cent. During the period under review (2005–2015), the contribution was the largest in 2015 and the smallest in 2008, at EUR 374 million. The difference of EUR 491 million between 2008 and 2015 means a growth of more than 130 per cent during this time period. The number of benefit days to be taken into account in contributions between 2008 and 2015 has risen by 60 per cent and earnings forming the basis of a benefit by 24 per cent. The average insurance contribution rate of the Employees Pensions Act, used in calculating the contribution, has varied between 20.6 and 23.7 percentage points during the period 2005–2015. The size of the Unemployment Insurance Fund contribution in relation to the wage sum of employees insured with pension providers that receive contributions was 0.6 per cent in 2008 and an estimated 1.2 per cent in 2015.

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