

## 2012 NATIONAL SOCIAL REPORT - FINLAND

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# National Social Report (NSR) 2012

## Summary

The Social Protection Committee (SPC) and the Council have requested more reporting on national social policy measures. The national social reports (NSR) are used in the annual SPC publication on the social situation in Europe. They also contribute to the reporting on the impact of the economic crisis and help to evaluate the consequences of economic and employment policies. The content of the current NSR is connected to the EU2020 strategy report (the national report programme, NRP) prepared simultaneously by the Finnish Ministry of Finance. The objective of the NSR is to present and evaluate the national policies for tackling poverty and exclusion, for guaranteeing sustainable and adequate pensions, and for improving the quality and accessibility of health and long-term care services. The principal themes of the Finnish report are the reduction of poverty, the prolongation of working careers and the promotion of health. We recognise that they require mutually reinforcing holistic policy measures across administrative fields.

In the beginning of the report, we describe the social and economic situation in Finland in the face of the pressure of the economic crisis and ageing population: increased unemployment and youth unemployment erode prospects for current and future well-being, the public debt has expanded, the economic outlooks are worrying, and inequalities have deepened. The statistical annex of the report illustrates further developments in various areas of well-being. Despite these recent problematic trends, various policy measures have improved the livelihood and health of the Finns. The most important actions are the realization of the social guarantee for youth, the introduction of the guarantee pension, increases in basic security, the rise in the employment level of older workers, and achieving later effective retirement age.

## 1. Introduction

The Finnish government has set as its main areas of priority the prevention of poverty, inequality and social exclusion, the consolidation of public finances, and the strengthening of sustainable economic growth, employment and competitiveness.<sup>1</sup> The key projects of these respective areas have been incorporated in the implementation plan of the Government Programme. The progress and needs for revision will be assessed in annual strategy sessions early in the year.

The progress towards these goals will most likely be hindered during the Government's term of office as the economic situation has deteriorated since the 2011 elections. In March 2012, the Government decided on EUR 1.2 billion of spending cuts and EUR 1.5 billion of tax increases in order to restore long-term balance in public finances. However, the level of social security benefits remained untouched. At the same time, the labour market organisations pledged their support to longer working careers through the development of the pension system, rehabilitation processes, occupational health care, well-being at work and easier labour market access for the young.

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<sup>1</sup> Government Programme accepted on 22 June 2011.



## 1.1. Overall economic and social context

### *Economic growth*

The demand-led recession adversely affected the Finnish economy rapidly and strongly due to a decline in exports. In 2009, the GDP fell by 8.4%. Even though the Finnish economy returned to a growth track the following year and the GDP rose by 3.7%, the economic recovery was slower than expected in 2011 at an estimated pace of 2.6%.

Moreover, the previous forecasts have been overly optimistic. Economic growth is now predicted to further slow down to 0.4% in 2012, and then reach the level of 1.7% in 2013. Economic recovery is principally based on domestic demand due to continuing weak export demand and cautious investment as a result of the precarious global economy. Household indebtedness has grown to a record level in 2011 (114%) and during a downturn this restricts also households' consumption in Finland (Table 2). With economic activity slackening, the unemployment rate is expected to rise to 8.1% (Figure 10) with long-term and youth unemployment especially growing (Table 5, Figures 9, 11 and 14). Structural unemployment continues to be a problem as well (Figure 13). In general, imbalances in the Finnish economy are expected to grow stronger while the rise in consumer prices will remain close to 3%.<sup>2</sup>

The economic crisis has put the stability of the public finance into difficulty due to lower tax revenue, increased counter-cyclical spending and resuscitation of the state economy. At the same time, the central government debt has grown strongly and it amounted to around EUR 30 billion higher at the end of 2011 in comparison to 2008 (an increase from 34% to 49% of the GDP). In general, economic growth is inadequate to stabilize public finance alone and further measures will be needed.

### *Social situation and the impact of the crisis*

Fiscal consolidation has not yet affected benefit levels or social expenditure drastically as in the recession of the early 1990s. Therefore, the impact of the crisis works principally through the diminishing opportunities in the labour market – especially for the young whose unemployment rate has grown alarmingly from 16.5% in 2008 to 21.4% in 2010. While there is undoubtedly a greater pressure on the system via increased unemployment and demographic changes, the challenges have not been responded by cuts in benefits. However, the rise in consumption taxes decided upon in March 2012 will weaken the purchasing power of the Finns and impacts on the low-income families especially. The Finnish municipalities, responsible for public service-provision, are facing greater challenges. According to a recent report, the financial trouble of the municipalities will increase even further during the next two decades to come. Regional disparities across Finland necessitate a stronger attention in the future.<sup>3</sup>

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<sup>2</sup> Ministry of Finance. Economic Bulletin 2/2011. Published 21 December 2011.

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/02\\_economic\\_surveys/20111220Econom/name.jsp](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/02_economic_surveys/20111220Econom/name.jsp)

<sup>3</sup> Ministry of Finance. Press release 15/2012 (in Finnish). Published 1 February 2012.

[http://www.vm.fi/vm/fi/03\\_tiedotteet\\_ja\\_puheet/01\\_tiedotteet/20120201Kuntie/name.jsp](http://www.vm.fi/vm/fi/03_tiedotteet_ja_puheet/01_tiedotteet/20120201Kuntie/name.jsp)



Economic and social inequalities have become greater in Finland since the 1990s, while some income inequality indicators show narrowing from the record level of 2007 (Table 1). Although all income classes enjoy greater prosperity and improved living standards, the richest part of the population has gained the most from the economic growth of the past twenty years (Figure 1). While the number of people living on low income or materially deprived has not grown due to the crisis<sup>4</sup>, the gap between the richest and the poorest has become wider and a large number of people still face the risk of poverty or exclusion (Table 4). Perhaps even more worrying are the deep-rooted health disparities in the Finnish society (Figure 22) and the growing number of children in custody or subject to other child welfare measures, a likely indication of the malaise of families (Figure 24).

### *Demographic changes*

According to the population forecasts, the working age population in Finland will decrease by 140 000 workers, i.e. 5% of the workforce, by 2020 (Figure 15). According to the Ministry of Employment and the Economy, the employment rate will need to increase from its current level by around 4 percentage points to 72% in order to fill the future jobs. The youth, immigrants and older people represent an important labour reserve on which we need to focus to achieve this goal. In the long run, the ageing population will underpin demands for more extensive health and long-term care services and put pressure on the Finnish pension system (Figure 16).

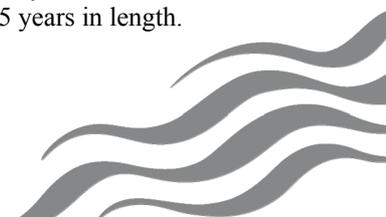
The 2005 pension reform together with improved health status and educational level<sup>5</sup> of the older workers has already brought about positive results in terms of later effective retirement age (Figure 17). Working careers should be extended not only at the end but also in the beginning and the middle. More focus should be accorded especially to the prevention of disability pensions (Table 6). The most important reasons for taking up disability pension are mental problems for the young and musculoskeletal disorders for the older workers (Figure 18).

Each year, there are fewer young people entering the labour market than exiting it at old age. The unemployment rate of the young has remained high: more than 30 000 people aged 25 or less were registered as unemployed job seekers at the end of 2011, a third of them having only a basic level of education. In addition, there is a growing group of thousands of young who are inactive, that is, neither in education or looking for work (Figure 23). Social exclusion of the young has emerged as one of the most alarming problems in Finland and the so-called social guarantee for youth in effect fully in 2013 is one way to tackle this issue.

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<sup>4</sup> “Number of low income earners stopped growing”. Press release 25 January 2012: [http://stat.fi/til/tjt/2010/02/tjt\\_2010\\_02\\_2012-01-25\\_tie\\_001\\_en.html](http://stat.fi/til/tjt/2010/02/tjt_2010_02_2012-01-25_tie_001_en.html)

<sup>5</sup> The length of the working career of the highly educated has increased recently: for men it is 38 years and for women 36. In contrast, for those with a basic level of education only, the working career is less than 25 years in length.



## 1.2. Content of the NSR

The principal social concerns to be addressed in Finland relate to three major issues that can be considered as Finland's key projects in the coming years:

1. Reducing poverty, social exclusion and inequality.
2. Prolonging working careers.
3. Promoting health and reducing health disparities.

The policy measures presented in this report are linked to these broad themes. They cover a wide range of issues such as inclusion, homelessness and poverty relating to the first group, disability pensions, quality of work and youth unemployment relating to the second group, and finally, linked to the third group, access to services and regional differences. The objectives are interconnected and the solutions will be mutually reinforcing. By creating opportunities for the young, we simultaneously address the problem of exclusion and accumulation of disadvantages; getting a grasp of education or work improves future health and autonomy and reduces later health disparities; by improving health in the lower socio-economic classes, we can reduce the number of people on disability pension and the risk of in-work poverty. Obviously, addressing these issues in a holistic way will entail a horizontal approach and cooperation across administrative fields.

## 1.3. Consultation with relevant stakeholders

The Ministry of Social Affairs and Health organised a hearing event on 20 March 2012 for the stakeholders to discuss the content of the NSR. Participants represented various governmental organs (Ministry of Social Affairs and Health, Ministry of Finance, Prime Minister's Office), representatives of municipalities (the Association of Finnish Local and Regional Authorities), the Finnish Centre for Pensions, the Social Insurance Institution of Finland, the Evangelical Lutheran Church, the Finnish Pension Alliance, non-governmental organizations (the Finnish Society for Social and Health, mental health association Helmi ry, the Finnish Heart Association, the Finnish Diabetes Association, single-parents' association), the Central Association of Finnish Pensioners, and labour market organizations (the Central Organisation of Finnish Trade Unions, the Confederation of Finnish Industries, the Finnish Medical Association).

## 2. Progress in relation to OMC objectives

### *Objectives in the field of poverty and social exclusion*

The Katainen government has executed so far the following measures in the fight against poverty and social exclusion:

1. Investing in children and young people: social guarantee for young people, improving quality of basic education and index-linking financial aid to students
2. The most disadvantaged groups: taxation is eased, basic daily allowance and labour market support for the unemployed are improved, income limits for housing allowance are raised, basic



amount of social assistance is raised by 6%, social assistance for single parents is improved, and production of social rented housing receives extra support.

### ***Objectives in the field of pensions***

The progress made in the field of pensions is discussed in more detail in part 4 of this report. In short, we can estimate that some positive advances have been made recently:

1. As of March 2011, the guarantee pension has increased the income level of poor elderly people – women and immigrants especially.
2. The changes made in the 2005 pension reform have positively influenced the length of working careers and later effective retirement age. As for the introduction of the life expectancy index in 2010, it will improve the sustainability of the pension system.

### ***Objectives in the field of health care and LTC***

Finland has aimed to mainstream health policy objectives in a way that health is taken into account in all policies. Part 5 of this report illustrates the challenges and policy programmes in the field of health care, while we can summarize some progress made as follows:

1. Introduction of maximum waiting times and uniform criteria for non-urgent health care has resulted in the elimination of excessively long (> 6 months) waiting lists to non-urgent surgery and specialist care.
2. Strong emphasis on quality and patient safety in the new Health Care Act.

## **2.1. Major challenges and future priorities**

### ***Active Inclusion***

Government departments and stakeholders on broad base are represented in a steering group for the implementation of the first priority of the Government Programme, the prevention of poverty, inequality and social exclusion. The implementation includes measures to tackle with unemployment, poverty, people's lack of prospects and non-participation. Main areas of development are:

1. Improving employment and income security.
2. Reducing differences in income, well-being and health and promoting equality.

The action plan for the fight against poverty, social exclusion and inequality contains seven areas for priority activities. These are: 1. equity, 2. health promotion, 3. prevention of exclusion from labour and labour market, 4. improvement of the status of low-income households, 5. prevention of exclusion of children and youth, 6. strengthening and reform of social and health services, 7. empowerment of civil society and the NGO's.



## *Pensions*

Reforming the Finnish pension system is essential in our aim to prolong working careers and to improve sustainability of public finances. The Government aims at an effective retirement age of 62.4 years in 2025. The necessary measures for achieving longer working careers increasingly consist of changes elsewhere than within the pension system: well-being at work, length of studies, health and educational level of ageing workers, reconciliation of work and family etc. In other words, we should better consider the various push and pull factors in the development of programmes and pension policies. Wide-ranging pension and social policy measures should focus especially on increasing the employment rate of the older workers and postponing retirement as well as on preventing and reducing various reasons for incapacity for work. Limiting the scope of policies to economic considerations only will not produce optimal results. Attitudes have already changed and people are willing to work later if work places are adjusted to the needs of older workers. This necessitates the cooperation from the side of the employers as well. The European Year 2012 on active ageing presents a good moment to reflect upon these issues across policy fields.

## *Health care*

Reducing health disparities has been one of the main goals of the Finnish health policy for a long time. Regional differences in waiting times mainly due to difficulties in recruitment of doctors hinder the access to primary health care services especially in remote areas but in bigger cities as well. Moreover, the burden of co-payments for public health services can be significant for many households. The Katainen government aims at developing co-payments towards a more equal and integrated system, while the restructuring of the municipal service system intends to increase regional equity and cost containment, both of which can be considered as major challenges in the Finnish health care system.

## **3. Reducing poverty and social exclusion**

### **3.1. National poverty target and the current situation**

The number of persons at risk of poverty, living in jobless households and facing material deprivation was around 910 000 in 2008. The national poverty target is to reduce this number by 150 000 persons by 2020 with a special attention paid on the development of the share of people living with extremely low incomes (less than 50% of the median). There has not been tremendous success in achieving this goal so far (Table 4). However, another indicator on material hardship, namely homelessness, has slightly turned down (Figure 25). While the economic situation has not been fertile for positive development recently, it also means that not enough resources have been allocated to address this problem.

At-risk-of-poverty rate has been quite stable since 2008, in spite of the constant rise of the at-risk-of-poverty threshold.<sup>6</sup> Child poverty decreased from 13.9% in 2008 to 12.5% in 2011. Poverty risk among the elderly (65+) fell from 16.1% in 2008 to 13.6% in 2011 (Figures 3 and 6). Apart from

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<sup>6</sup> “Number of low income earners stopped growing”. Press release 25 January 2012: [http://tilastokeskus.fi/til/tjt/2010/02/tjt\\_2010\\_02\\_2012-01-25\\_tie\\_001\\_en.html](http://tilastokeskus.fi/til/tjt/2010/02/tjt_2010_02_2012-01-25_tie_001_en.html)



minor changes, the at-risk-of-poverty rate has continued to grow through the 1990s and 2000s (Table 3). During the same period, considerable alterations have taken place in the risk groups: the economic position of the elderly has improved, while children and the youth face an enhanced risk (Figure 5).

The average household disposable income in real terms has grown steadily since the recession of the early nineties, even through the economic crisis of the 2008–2009. Unemployed people are an exception from the growth trend in socio-economic terms as their mean household income has fallen in the long run (Figure 4).

For the last six years, the poverty gap has stayed at the level of 15–16% from the at-risk-of-poverty threshold. In the longer run, the gap widened: it was around 13–14% in the 1990s (Figure 2). At-risk-of-poverty measured as 50% of the median increased until 2007 and stayed around 6% for the last five years (Table 3).

Intergenerational poverty is examined in cohort studies. They find higher prevalence of present poverty in populations with childhood poverty experiences. The mean duration of poverty is five years according to register-based data available from 1995. Almost 10% of the population experienced persistent poverty in 2011 (Figure 7). Long-term as well as short-term poverty peaks are experienced in young adulthood and at the late end of the life cycle, especially among females.

### 3.2. Main measures taken to reduce poverty and social exclusion

The concrete activities so far for prevention of poverty, inequality and social exclusion are described in details in the Finnish reply for the SPC crisis report<sup>7</sup>. Some of the below measures are only at the stage of planning for the moment. The measures can be presented shortly as follows:

#### *I. Access for resources, rights and services:*

1. Some allowances were linked to changes in the cost-of-living-index.<sup>8</sup>
2. A guarantee pension was introduced.
3. Income support for single parents was slightly improved and the minimum social security benefit was increased by 6%. The income limit for eligibility for housing allowance was increased at the same time by 100 Euros.
4. Basic unemployment allowance and labour market subsidy were increased by 100 Euros per month. The increase affects also the earnings-related allowance. The Government decided in March 2012 that spouse's earnings will no longer affect labour market subsidy. This aims to support families and increase incentives for work.

#### *II. Active social inclusion:*

1. More resources will be used to guarantee an improved livelihood for the most disadvantaged people and EUR 200 million is allocated to increase employment (especially that of young people).

<sup>7</sup> The FI report for the SPC questionnaire, 3 October 2010

<sup>8</sup> Yet, in the budget meeting of 22 March 2012, the indexation of child allowance was frozen temporarily.



2. An additional EUR 60 million per year will be used to guarantee activity, such as a job, a traineeship etc., to an unemployed young person under 25 years old or to a newly graduated unemployed person aged 30 years or less.
3. EUR 40 million per year is allocated for improved activation services.

### *III. Coordinated policies:*

1. Taxes on labour have been shifted towards taxes on consumption<sup>9</sup>, wealth and environment. Taxes on low income earners will be eased and a so-called solidarity tax<sup>10</sup> will be levied temporarily on people earning more than 100 000 Euros in a year.
2. Taxes on alcohol and tobacco will be raised in order to limit adverse health effects.
3. To improve businesses' employment, growth and investment opportunities, the Government will lower the corporate tax rate by one percentage point to 25%.
4. The fight against the shadow economy is intended to protect honest work and entrepreneurship. An additional annual allocation of EUR 20 million will be made available for combating the shadow economy.

The programme for children and youth policy 2012-2015 was accepted at the end of the year 2011. In February 2012 an action plan proposal for housing policy 2012-2015 was introduced. The action plans for youth guarantee and for reducing poverty and exclusion are in keen preparation at the moment as well.

### **3.3. Description of measures in place**

The current key projects consist of social guarantee for youth, reducing of long-term unemployment, facilitating re-entry to the labour market of the partially disabled, reducing long-term homelessness, and measures to improve the situation of other special groups:

#### *Social guarantee for youth*

One of the most important initiatives in the Government Programme is, without a doubt, the social guarantee for youth aiming to guarantee an access to education or work for the young people. The programme has three main components:

1. Education guarantee for comprehensive school graduates without a diploma or place in secondary education.
2. Social guarantee for young unemployed job-seekers registered in employment office.
3. Social guarantee for adolescents not currently involved in any known activity or in need of support.

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<sup>9</sup> However, this is known to negatively affect the purchasing power and living standards of low-income families especially.

<sup>10</sup> Decided in the budget negotiations on 22 March 2012.



Measures in the first group include adding entry places for vocational education, changing the acceptance criteria for prospective students and increasing the training compensation of employers of young people and support for apprenticeships. In the second group, the objective is to develop and intensify the services, such as career counselling, provided in employment offices. In addition, a wage subsidy for firms hiring young people will be permanently established and young immigrants will be given more language and preparation classes. The third group contains municipality responsibility for counselling comprehensive school graduates, workshops, and expansion of outreach youth work.<sup>11</sup>

### ***Immigrants***

The Government is preparing a new integration programme for 2012-2015.<sup>12</sup> It includes measures related to immigrants' employment, education, housing, physical exercise, culture, as well as social and health care. All administrative sectors will pledge to equality, non-discrimination, prevention of racism, and promotion of good ethnic relations. The programme concentrates resources strategically on the beginning of the integration process so that remedial measures could be minimised.

Ministry of Employment and the Economy has allocated a supplementary three million Euros for pilot programmes on education.<sup>13</sup> In these projects, the municipalities seek for new and cost-effective ways to support immigrants' adult education, early childhood education and basic education. The objective is to create a clear educational structure for the support of the integration process.

### ***People with partial incapacity for work, disabled people and people with weak attachment to the labour market***

The Government's employment policy includes the objective of improving the labour market and rehabilitation opportunities of partially disabled and other groups with weak attachment to the labour market (Table 7, Figures 19–21). A comprehensive programme to develop incentives, support, legislation and even attitudes is about to start in the spring 2012.<sup>14</sup> A special attention will be accorded to employers' incentives, support for the employee to find the most suitable path to employment, and better reconciliation between pension and earnings. There are 30 000 people drawing a disability pension with willingness to re-enter labour market and 40 000 unemployed with some disability: this equals to a working potential of one age class, an important resource that we cannot afford to waste (see more on disability pension in section 4.2.).

Since 2010, Finland has a comprehensive National Disability Policy Programme (VAMPO), which aims at guaranteeing equal treatment of persons with disabilities.<sup>15</sup> The objective of the programme

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<sup>11</sup> Ministry of Employment and the Economy: Press release 26.9.2011, "First expertise, then work, for young". [http://www.tem.fi/?105047\\_m=104093&l=en&s=4760](http://www.tem.fi/?105047_m=104093&l=en&s=4760)

<sup>12</sup> Ministry of Employment and the Economy: Press release 14.9.2011, "New integration programme to facilitate everyday life of immigrants". [http://www.tem.fi/?89661\\_m=103788&l=en&s=2081](http://www.tem.fi/?89661_m=103788&l=en&s=2081)

<sup>13</sup> Ministry of Employment and the Economy: Press release (in Finnish) 16.3.2012, "Almost three million Euros for immigrants' education programmes".

<sup>14</sup> Ministry of Employment and the Economy: Press release (in Finnish) 21.11.2011. "Partially disabled back to work".

<sup>15</sup> Ministry of Social Affairs and Health: Press Release 26.8.2010 (in Finnish). "Concrete measures to improve the situation of disabled people".



is to mainstream disability policy into different functions in society while creating a strong foundation for human rights, non-discrimination, equality and inclusion.

### ***Roma people and migrants***

The Finnish National Policy on Roma promotes the equality and inclusion of the Roma in different spheres of life. The key areas in the policy include encouraging participation in education, promoting labour market integration, equal treatment and equal access to services, and developing the Roma population's opportunities to participate in decision-making.

### **3.4. Measures to tackle in-work poverty**

In-work at-risk-of-poverty has been relatively stable and at a low level (around 4-5% of all employed) since 2004. Finland's rate in 2010 was the lowest in Europe (EU average being 8%) and the rate has fallen since 2008. In-work poverty is clearly connected to poor labour market position: short contracts, part-time work and spells outside the labour market decrease earnings. If these are additionally linked to low wage, the financial situation of the family will tighten fast. Those with full-time and continuous work will face a heightened risk mainly when they have greater maintenance obligations – especially in the case of single-breadwinner families with many children or lone-parent families.

Only one percent of full-time employees in non-volatile jobs end up below the poverty threshold, and there have not been any changes in this figure during the 2000s. In contrast, the number of people with precarious or indeterminate work and facing in-work poverty has tripled during the same period.

In-work poverty can best be tackled by removing obstacles for reconciling work and family and taking care of other general employment policies that can enable uninterrupted career. It is crucial to facilitate labour market participation of single-parents especially, for example with the help of more flexible child care arrangements. Recent measures for improving work incentives and reducing in-work poverty include the introduction of lower tax rates for low-income earners and an increase in the earnings threshold for housing allowance.

## **4. Adequate and sustainable pensions**

Pension policy plays an important role in achieving two of the three key objectives set in the beginning of this report. The goal of reducing poverty is addressed first and then, we look at the connection between pensions and the goal of prolonging working careers. The two are naturally interlinked and further connected to the sustainability of public finance.

### **4.1. Main measures taken in 2011 and 2012 to ensure adequate and sustainable pensions**

In March 2011, the Finnish national pension was supplemented by a guarantee pension (*takuueläke*) that guarantees a minimum pension income of 714 Euros.<sup>16</sup> Around 10% of all pensioners, or an

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<sup>16</sup> The minimum pension will be smaller if the pensioner has taken up early retirement.



estimated 116 000 people, were entitled to this benefit in 2011. The guarantee pension will improve the economic situation of women and immigrants on low incomes especially and increases the state social budget by around EUR 111 million per year.<sup>17</sup> According to simulation model estimates, the guarantee pension decreases old age poverty rate by 0.9 percentage points in 2012.<sup>18</sup> According to the Government Programme, access to and coverage of care allowance for pensioners (*eläkkeensaajan hoitotuki*) will also be improved.

The poverty rate of elderly people in Finland has decreased significantly from the level in 1990. However, compared to the national average, people over 75 years old, and women especially, face a considerably higher risk of poverty (Figure 5 and 7). Disposable income of retired households has grown significantly during the last decade and their economic position in regards to wage-earners has not deteriorated. The disability pensions are an exception as their value has weakened in relation to the income levels of the active population.<sup>19</sup>

On the gender equality side, the difference between retired men and women is significant. The average old age pension for men was 1687 Euros and for women 1097 Euros (Table 10). This is mainly due to the differences in the length of career especially because many of the oldest female pensioners have had short or none working career in the past. But the effect of wage differentials holds still today; on average, women earn 18% less than men.<sup>20</sup> As the importance of earnings-related pension in the income security of the retired has grown, poverty and exclusion can, in the future, be best fought through the success of employment targets.

The 2005 reform of the earnings-related pension system changed the pension accrual percentages in order to encourage employment later in life; it also supported more flexible retirement and introduced the use of life expectancy index. Nevertheless, the previous government and social partners agreed that additional measures are necessary to increase the expected effective retirement age by three years by 2025. In March 2012, the labour market organisations agreed upon career policies that emphasize well-being at work as part of the pension system and guarantee the introduction of age programmes in work places. Between 2014 and 2016 the pension contribution will be increased by 0.4 percentage points, the path to early retirement will be removed, and age limit to part-time retirement will be raised to 61 years.

In 2010, for the first time, the life expectancy has been used to adjust pensions (determined for each cohort at the age of 62). As a consequence, the rise in life expectancy will cut the size of the new pension. In 2040, the pension benefits are projected to decrease to 85.2% of the pre-reform level due to this adjustment, *ceteris paribus*. However, as a pensioner is likely to live longer (and thus, receive pensions longer) the pensions received during the entire retirement equal to the same amount as before. In order to increase the monthly pension and offset the impact of the index, older persons are encouraged to continue to work with an accelerated pension accrual.

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<sup>17</sup> [http://www.kela.fi/in/internet/english\\_nsf/NET/260810152359HN?OpenDocument](http://www.kela.fi/in/internet/english_nsf/NET/260810152359HN?OpenDocument)

<sup>18</sup> Honkanen P, Tervola J. ”Vuoden 2012 perusturvamuutoksien vaikutukset”. Helsinki: The Social Insurance Institution of Finland.

<sup>19</sup> Finnish Centre for Pensions. Eläketurvakeskuksen raportteja 04/2011.

<sup>20</sup> However, these gender differences in pensions are not due to the pension system *per se*. In 2006, the Government and the labour market organisations committed themselves to reduce gender pay gap to 15% by 2015. More narrow gender pay gap will be achieved through a reduction of gender segregation in the labour market, changes in hiring and payroll, and more support for women’s careers.



The pre-funding of earnings-related pensions will buffer the pressures to raise pension contributions as the old-age dependency ratio increases. In 2007, a reform on investment activities made possible greater risk-taking (and profit-making) in the investment of pension funds. This is one of the major legislative reforms made recently in order to increase the sustainability of the pension system. In 2008, the financial crisis hit the Finnish pension funds as well and reduced their value by 16.4%; the following year, most of the losses were, however, recovered. The possible effect of the present Euro-zone crisis is not yet foreseeable.

#### 4.2. Country-specific recommendations

The Council<sup>21</sup> has recommended Finland to carry out activities that will improve the employment opportunities of the older workforce, improve their participation in life-long learning, decrease early exit from the labour market, and reconsider connecting statutory retirement age to life expectancy. These issues will be tackled in the framework of European Year 2012 for Active Ageing and Solidarity between Generations.<sup>22</sup> An executive group has prepared a national action plan, according to which the main goals of the European year in Finland are:

1. To promote understanding of the importance of active ageing and collaboration between generations for the development and maintenance of people's participation and well-being during their whole life course.
2. To promote the dissemination of practices that support active ageing and co-operation between generations, in workplaces, schools, day care and NGOs.
3. To gather information on different generation groups and their operative cultures. During the year, unbiased information is to be distributed and the fostering of positive age attitudes in our society is to be promoted.

The employment rate of older workers has increased considerably up until the economic crisis (Figure 12). The national aim to raise the employment rate to 60% for the age group of 55-64 years seems, however, to wither away for the time being. In general, it should be noted that the entire working career should be considered – and not only the end of it – when we wish to affect people's retirement decisions. A bulk of research indicates that the reasons for early retirement are to be found in the working conditions, the lack of flexibility, stress and poor management; factors than can hardly be influenced by the pension policy.

In short, an increase in the retirement age can only be a part of the solution as many Finns enter retirement through disability pension before reaching the old-age retirement age (most often due to mental illness, for example depression). Therefore, a major challenge would be to reduce the amount of people entering disability retirement – possibly through improvements throughout their working life (see also above section 3.3.). In the recent years, the number of people entering disability retirement has already decreased slightly (Table 6).

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<sup>21</sup> Annual Growth Survey 2011.

<sup>22</sup> Ministry of Social Affairs and Health, Press release 7/2012: "European year 2012: Always at the optimal age".  
<http://www.stm.fi/tiedotteet/tiedote/-/view/1577189>



As of 2007, part-time sickness allowance has tried to facilitate the re-entry to labour market instead of taking up disability pension. It is also possible to earn 40% of the pre-retirement income or at least the amount equivalent to guarantee pension together with the disability pension. It is also possible to suspend the payment of the disability pension for a maximum of two years time. A new legislative act aims to reduce prolonging of sick leaves and to facilitate re-entry to the labour market. From the 1<sup>st</sup> of June 2012 onwards company physician is obliged to assess the remaining work ability of the worker after 90 sick leave days. The employer is obliged to find out the possibilities of continuing with work in cooperation with the Social Insurance Institute and occupational safety organizations. The objective is to get the employee early enough to rehabilitation. Rehabilitation of the unemployed has also been an object of development. Resources have been earmarked for health care services and physical examinations in recent years. This has served the purpose of eliminating differences in the access to health care between employed and unemployed and encouraging healthy unemployed back to work or those with incapacities for work to take up disability pension.<sup>23</sup>

## **5. Accessible, high-quality and sustainable health care and long-term care**

Well functioning and accessible health care services are essential in making progress towards the three key objectives of reducing poverty, extending working careers and promoting health.

### **5.1. Main measures taken in 2011 and 2012 to improve access, quality and adequacy of services**

#### *Access to health services*

According to the Constitution, all residents in Finland have the right to adequate social and health services. Inequity in access to health services exists, anyhow, due to the overall structure of health care delivery (those having access to private health care or occupational health care usually fair better than those using municipal health care services) and shortages of GP services in remote areas and in big cities as well. Municipalities, which are responsible for organizing public health care for their residents, are the main service producers, a factor explaining, to a large extent, regional differences in access to and quality of health care services.

The introduction of maximum waiting times for municipal health care and the extension of public dental care to all age groups have improved access to health care. Currently the biggest problems are related to GP services in municipal primary care and access to dental care. 80% of the population live in an area where waiting time for non-urgent physician consultation is longer than two weeks. In oral health care over 14 000 patients have waited longer than 6 months. In secondary care the overall situation is better and the waiting times have diminished remarkably during the last couple of years.

The policy to use payment ceilings for user fees in public health care, medication spending and transportation to health care offers some support for access to health care, but the payment limits may have been insufficient for those worst off. According to the Government Programme, the sys-

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<sup>23</sup> Peppi Saikku, "Health service supporting entry to employment. Physical examinations and health care services" (in Finnish). Helsinki: The National Institute for Health and Well-being, Raportti 22/2009.



tem of co-payments will be further developed so that the co-payments for social and health services would not hinder the use of services.

### ***Reform of the social welfare and health care service structures***

There are major inequalities in health and welfare between population groups. The decentralised service system has not been able to tackle them adequately. In the present situation only few municipalities have the sufficient prerequisites for providing social welfare and health care so that they can meet the future challenges.

The Ministry of Social Affairs and Health is currently preparing a restructuring of the social welfare and health care services.<sup>24</sup> The proposals emphasise equal treatment of individuals and client-orientation. The service structure must ensure sufficient quality services for all at a reasonable cost. The operations should be effective and cost-effective. Curbing the demand for services by means of promoting health and welfare is the key to developing the system.

A new law on providing, financing, developing and supervision of social welfare and health care is being prepared to implement the restructuring of services. This work is closely linked with the Government's plan to reorganise the municipalities. Proposals for the reorganisation will be completed in 2012. The goal is to form bigger, economically robust municipalities that are better able to attend to their duties.

### ***Growing health disparity***

The overall health status has improved over the past decades, and the Finns live longer than earlier. However, not all population groups have benefited from the development equally and socio-economic differences in health status have increased since the 1980s. Socio-economic differences in mortality particularly among men have been larger than in many other OECD countries. This trend has continued and disparities in life-expectancy between income groups have increased mainly due to slower progress and factual stagnation among the lowest income groups (Figure 22).<sup>25</sup> The single most prominent cause to explain the increase is alcohol-related mortality. Health differences between genders, particularly in terms of mortality, have also been more prominent in Finland than elsewhere.

Increasing socio-economic differences, including growing income differences and poverty as well as risk of prolonged unemployment are regarded as background factors for poor trends in health inequalities. In addition, prominent inequities in access to, and use and quality of health services may also contribute to socio-economic differences in health.

It is important to acknowledge that health inequalities cannot be narrowed by health care measures alone. The most efficient way to do this is through close cooperation between all sectors of the society by targeting measures towards improving the relative status of the most vulnerable members of

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<sup>24</sup> [http://www.stm.fi/en/strategies\\_and\\_programmes/paras](http://www.stm.fi/en/strategies_and_programmes/paras)

<sup>25</sup> Tarkiainen et al.: Trends in life expectancy by income from 1988 to 2007: decomposition by age and cause of death. JECH Online First. Published 3.4.2011.



society. In addition to services intended for all, measures will be targeted at vulnerable population groups such as low-income elderly people, immigrants and unemployed.

The National Action Plan to reduce health inequalities was executed in 2008-2011. Various other programmes have also included the goal of reducing health inequalities. The new National Development Programme for Social Welfare and Health Care 2012-2015, *Kaste II*<sup>26</sup>, aims at reducing health inequalities by developing methods and incentives specifically intended for risk groups in order to promote their health and well-being. Participation of young people at risk of social exclusion, long-term unemployed people and people with low employability in education and working life will be supported.

According to the Government Programme, the present government will take promotion of well-being and health as well as the reduction of inequality into account in all societal decision-making, and incorporate them into the activities of all administrative sectors and ministries.

### ***Ensuring the patient safety and quality of care***

Finland has taken a series of national actions to raise patient safety high on the agenda and ensure that health care institutions will pay sufficient attention and take action on patient safety.

The new Health Care Act (2011) requires all public health care institutions to develop a plan for patient safety enhancement based on international approach on patient safety work.

### **5.2. Actions taken to ensure financial sustainability of services**

Demographic change translates into an increase in health care expenditure and a need for added personnel, unless the productivity of services can be increased. The economic crisis has accentuated the importance of reforming social and health service provision. It is important to modernise the local government and service structure in order to improve the availability, quality and productivity of services. The productivity can be improved by reorganising services and introducing new ways of producing them.

The focus of social and health services will be shifted increasingly to preventive action. Services will be comprehensively reformed so that users will be actively involved in their development. The social welfare and health care electronic data management control system will be strengthened.

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<sup>26</sup> [http://www.stm.fi/en/strategies\\_and\\_programmes/kaste](http://www.stm.fi/en/strategies_and_programmes/kaste)



## Annex 1. Background information

### Changes in income inequalities and at-risk-of-poverty levels in the 2000s

#### 1 Income inequalities

Relative income inequalities have not risen to any appreciable extent during the first decade of the 21st century. Income inequalities rose very rapidly during the latter five-year-period of the 1990s but, later on, variations have been smaller and mainly due to cyclical reasons. Since the peak year of 2007, income inequalities have stabilised a little.

**Table 1. Income distribution in general 2000–2010**

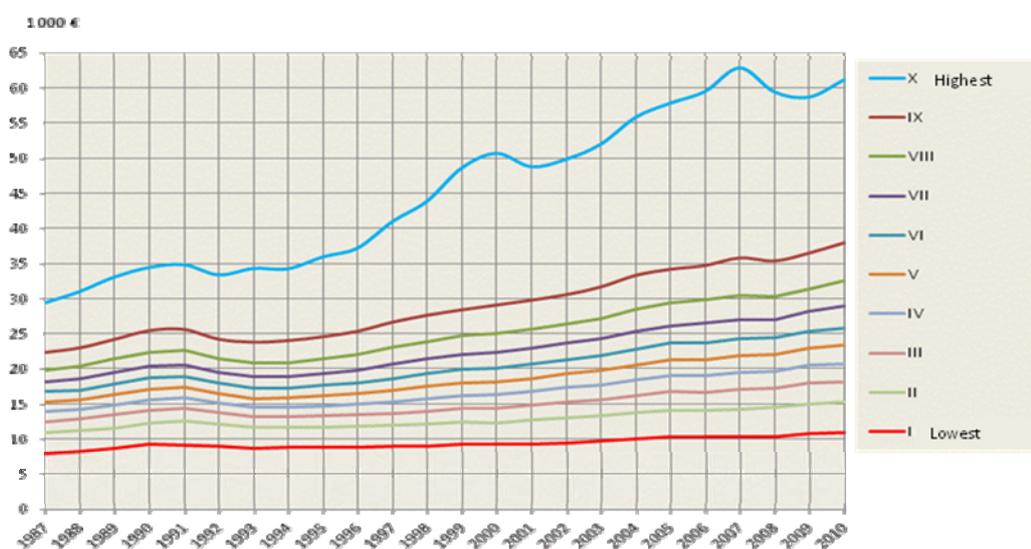
|      | S80/S20 | Gini  |
|------|---------|-------|
| 2000 | 3.70    | 0.267 |
| 2001 | 3.60    | 0.258 |
| 2002 | 3.59    | 0.256 |
| 2003 | 3.62    | 0.260 |
| 2004 | 3.75    | 0.266 |
| 2005 | 3.77    | 0.267 |
| 2006 | 3.86    | 0.273 |
| 2007 | 4.02    | 0.280 |
| 2008 | 3.83    | 0.268 |
| 2009 | 3.69    | 0.259 |
| 2010 | 3.80    | 0.266 |

S80/S20: Relationship of equivalent disposable household income shares between the lowest and highest income quintiles.

Source: Statistics Finland, statistics on income distribution

Figure 1 describing absolute income inequalities illustrates better the development of income inequalities. The concurrent expansion of the range of the real income and the growing differences between the deciles, while the Gini coefficient shows no clear increase, is explained by the fact that the Gini coefficient describes the changes in relative income inequalities, while the changes of decile mean income describes the growth of absolute income inequalities.



**Figure 1. Equivalent disposable household income by decile 1987–2010, in real terms, mean € per year**

Source: Statistics Finland, total statistics on income distribution

## 2 Indebtedness

The rate of indebtedness is the ratio of debts to annual disposable income in household-dwelling units with debt. The indebtedness in households increased at a rapid pace in the 2000s. In 2002, the rate of indebtedness of household-dwelling units with debt was 108%, while in 2010 the rate had risen to 156%. Indebtedness increased especially in the age group 30–39, where the average rate of indebtedness was over 220% in 2010. For the lowest income quintile, the rate of indebtedness was on average 172% and for the highest 146% of annual disposable income.

Housing loans have grown more than other debts (the share of housing loans of all the debts of household-dwelling units increased from 65% to 78%). The rate of indebtedness for under 40-year-olds with housing loan was on average around 300% in 2010. The increase in the rate of indebtedness was the most rapid among families with children.

Total household sector indebtedness was 114% in 2010. The rate of total household sector indebtedness is the ratio of debts to annual disposable income in all household-dwelling units (with or without debt).

**Table 2. Indebtedness in households with debts by household composition and total household sector indebtedness, 2002–2010, %**

| Household composition                  | Year |      |      |      |       |       |       |       |       |  |
|--|------|------|------|------|-------|-------|-------|-------|-------|--|
|  | 2002 | 2003 | 2004 | 2005 | 2006  | 2007  | 2008  | 2009  | 2010  |  |
| All indebted households                | 108  | 117  | 123  | 136  | 144   | 147   | 149   | 153   | 156   |  |
| Single-person                          | 110  | 120  | 127  | 142  | 150   | 152   | 151   | 153   | 157   |  |
| 1 adult and at least 1 child           | 121  | 131  | 141  | 156  | 171   | 176   | 179   | 185   | 191   |  |
| At least 2 adults and at least 1 child | 128  | 139  | 147  | 163  | 172   | 177   | 182   | 189   | 194   |  |
| 2 adults, no children                  | 90   | 98   | 103  | 112  | 118   | 120   | 119   | 121   | 124   |  |
| Other                                  | 79   | 85   | 88   | 96   | 102   | 104   | 107   | 114   | 116   |  |
| Household sector (National accounts)   | 71.9 | 77.2 | 84.2 | 94.8 | 102.9 | 108.0 | 109.5 | 111.9 | 113.4 |  |



Source: Statistics Finland, Statistics on indebtedness, National accounts

### 3 At-risk-of-poverty rate

The at-risk-of-poverty rates have risen in the 2000s. The general income development has been faster than the income development of the population with the lowest income. The growth has, however, been stagnated since 2007.

A slow tendency towards poverty can be detected in the internal income development of the population with the lowest income. The at-risk-of-poverty rates based on the national statistics on income distribution (the concept of income includes imputed rent and capital gains) show that the share of population living below 40% and 50% of median income have increased somewhat. The at-risk-of-poverty rates anchored at the 2005 thresholds of 60% and 50% have, as a rule, decreased. However, the downturn trend has decelerated a little. Also the growing poverty gap indicates that poverty among low income earners is increasing (Figure 3).

**Table 3. At risk of poverty rates, different thresholds, 2000–2010**

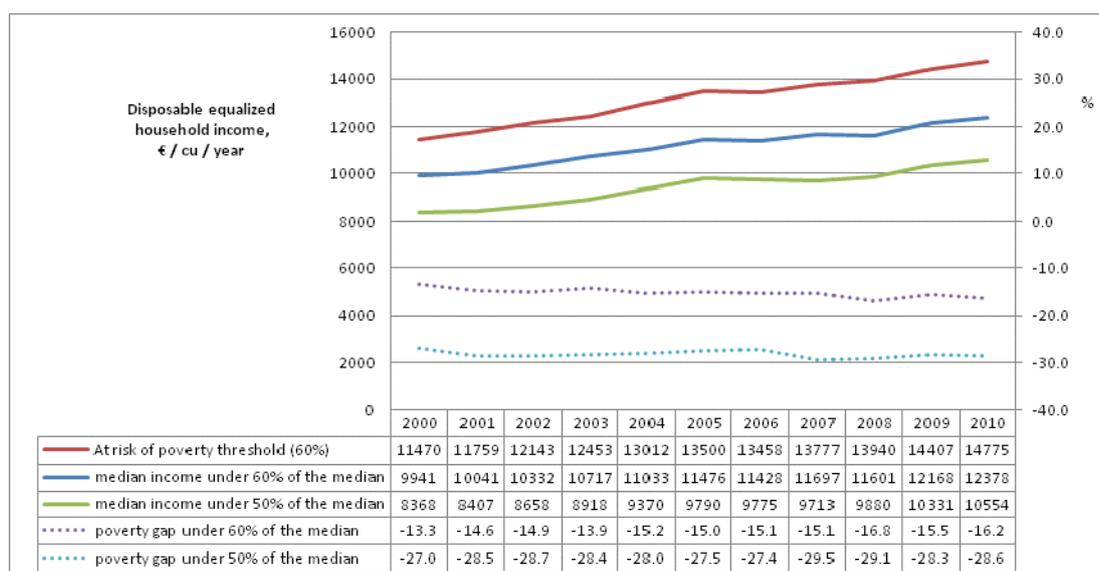
|      | At risk of poverty, by threshold |      |      | At risk of poverty anchored at 2005 thresholds |      |
|------|----------------------------------|------|------|--|------|
|      | 60 %                             | 50 % | 40 % | 60 %   | 50 % |
| 2000 | 11.3                             | 4.5  | 1.4  | 20.5   | 10.2 |
| 2001 | 11.2                             | 5.0  | 1.9  | 18.5   | 9.3  |
| 2002 | 11.4                             | 5.2  | 2.1  | 17.1   | 8.2  |
| 2003 | 11.5                             | 4.8  | 2.0  | 15.5   | 7.4  |
| 2004 | 12.2                             | 5.5  | 2.1  | 13.9   | 6.6  |
| 2005 | 12.8                             | 5.7  | 2.0  | 12.8   | 5.7  |
| 2006 | 12.5                             | 5.8  | 2.1  | 12.7   | 5.8  |
| 2007 | 13.5                             | 6.3  | 2.3  | 12.6   | 5.6  |
| 2008 | 13.3                             | 6.7  | 2.5  | 12.0   | 5.7  |
| 2009 | 13.1                             | 6.3  | 2.4  | 10.2   | 4.6  |
| 2010 | 13.5                             | 6.5  | 2.6  | 9.8  | 4.2  |

Source: Statistics Finland, statistics on income distribution

### 4 Poverty gap

**Figure 2. Median income and poverty gaps in different groups at risk of poverty, 2000–2010**



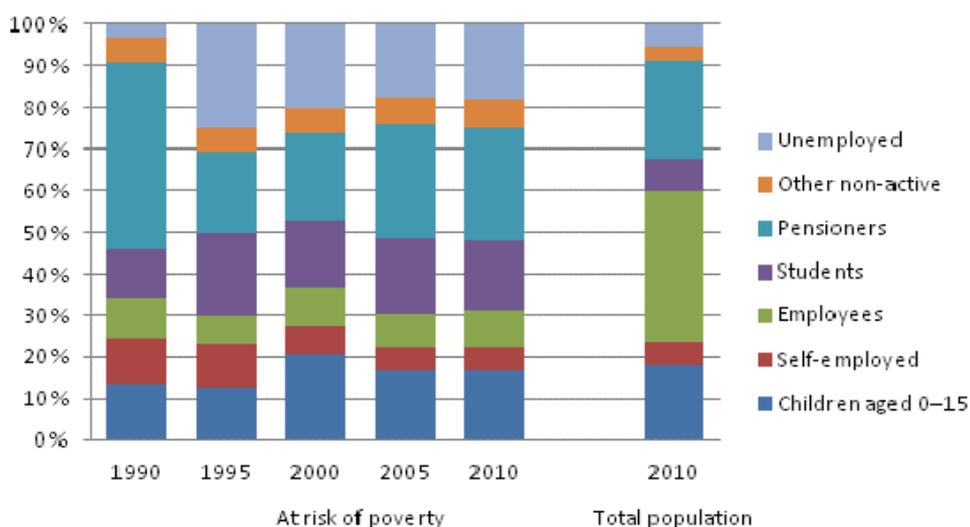


Source: Statistics Finland, statistics on income distribution

## 5 Population at risk of poverty and general income development according to socio-economic status

The socio-economic structure of the population at risk of poverty differs clearly from the rest of the population: compared to the population proportion, the share of low-income wage-earners is very low, while the over-representation of unemployed persons and students is significant. The socio-economic structure of the population at risk of poverty has changed in the long term especially as the share of pensioners has decreased. However, no significant changes have taken place in the 2000s. The share of children has decreased a little, while the share of pensioners has increased.

**Figure 3. Distribution of population in socio-economic groups in 1990–2010, population at risk of poverty and total population, %**

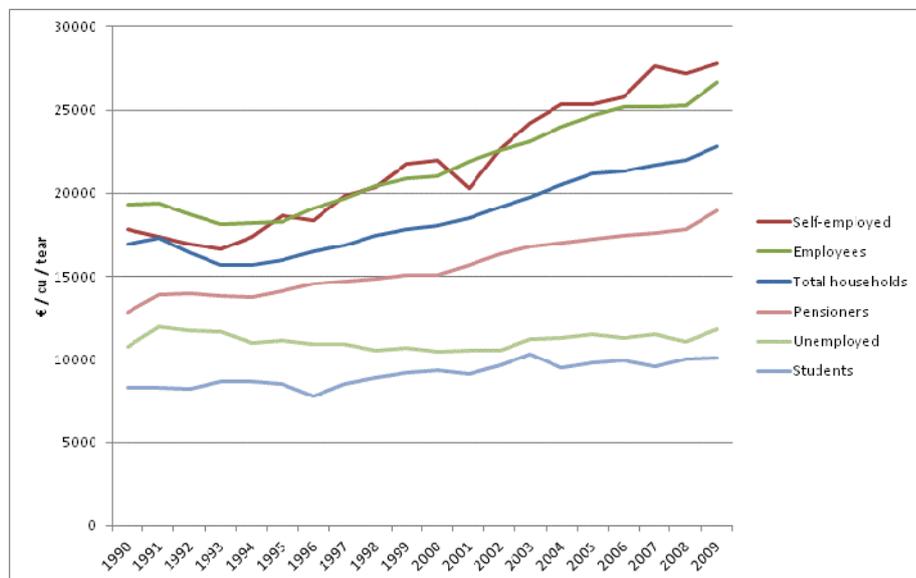


Source: Statistics Finland, statistics on income distribution



The average disposable income of households per consumption unit has, as a rule, increased in the long term in nearly all socio-economic groups. An exception is households where the reference person is unemployed. Their income has decreased.

**Figure 4. Mean equivalent income by socio-economic status, 1990–2009, €/cu/year**



Source: Statistics Finland, Findicator

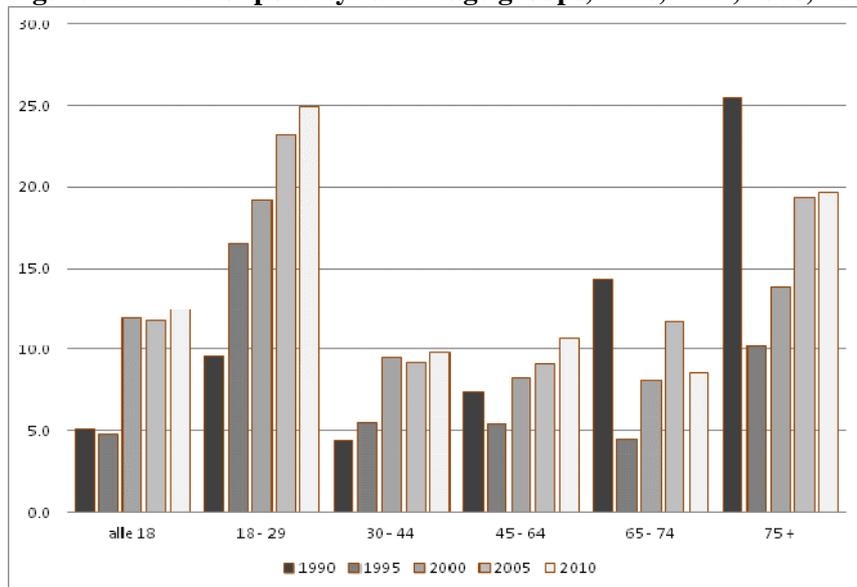
## 6 At-risk-of-poverty rate by age group

The age group 18–29 has the highest at-risk-of-poverty rate (25%) and the age group 75 and over the second highest (20%). The income levels of one-person households and students especially are below the at-risk-of-poverty threshold. Based on interview data, also income transfers from parents have been considered. Study loans are not considered income, and the full value of social services (such as subsidized housing and meals, etc.) received by young students is not taken into account.

The time series describes how the at-risk-of-poverty rate for the age group 75 and over first decreased from a high level in the early 1990s but has since then increased again. The opposite development is observed in child poverty, which for two decades was at a low level, but rose to the level of the average population in the early 2000s and has since remained at that level (Figure 5).



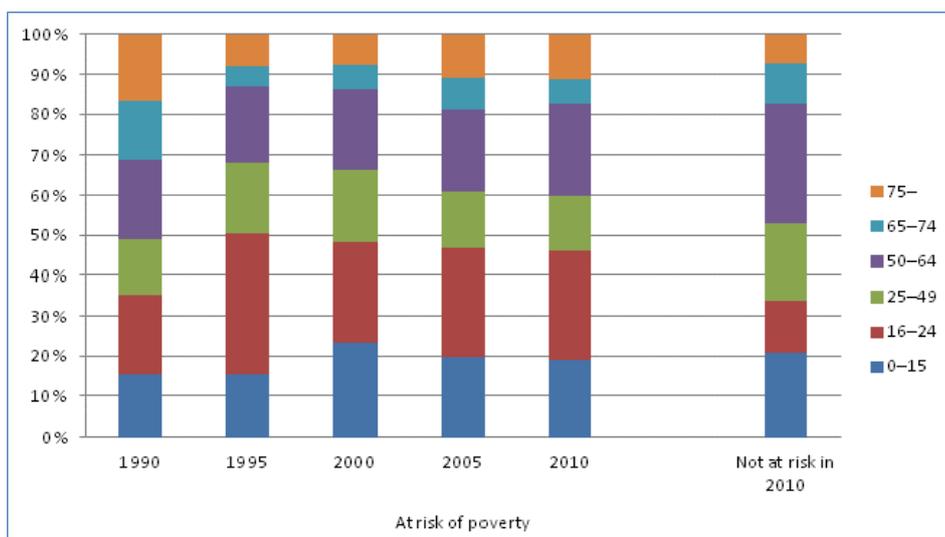
**Figure 5. At risk of poverty rate in age groups, 1990, 1995, 2000, 2005 and 2010**



Source: Statistics Finland, Income Distribution Statistics

The age distribution of the population at risk of poverty has gone through a significant change since the year 1990, when the low income was more evenly distributed among all age groups than ever later. Since then, the age distribution has changed as the at-risk-of-poverty threshold has differentiated for different age groups. At present, the age distribution of the population at risk of poverty is considerably different from that of the rest of the population. Figure 6 compares the age distribution of the population at risk of poverty and the rest of the population in 2010.

**Figure 6. Age distribution by poverty risk 1990 - 2010**



Source: Statistics Finland, Income Distribution Statistics

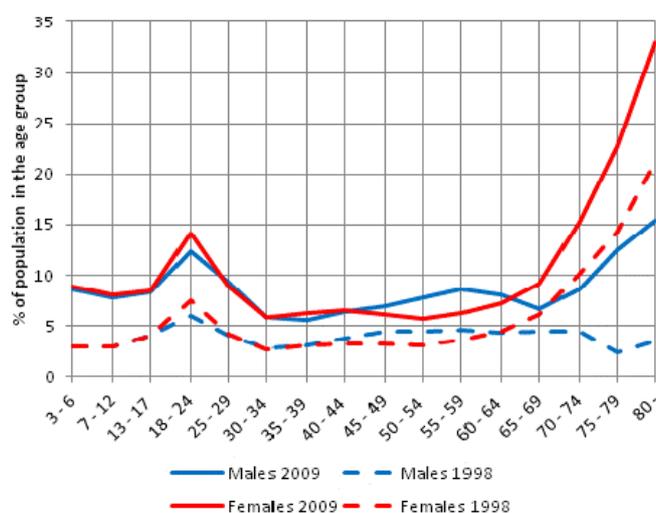


## 7 Persistent at risk of poverty

Persistent at risk of poverty (household members whose income is below the at-the-risk-of-poverty threshold in the reference year and in three out of four preceding years) has doubled from the 4.5% in 1998 to the 9.3% in 2010. The risk is accentuated in two stages of life: on the one hand, in reaching retirement age (predecessors of the baby boomers) and, on the other, in young adulthood (at the ages of 15–29).

The level of persistent at risk of poverty has increased in all stages of life. The change for men aged 55 or over deviates from the pattern. There is no explanation for it.

**Figure 7. Persistent at risk of poverty 1998 and 2009 by age and gender**



Source: Statistics Finland, Total Income Distribution Statistics 2009

Register-based data on income distribution has been collected as a time series since 1995. The 2010 data enables already a 15-year retrospective examination of the duration of at risk of poverty. Those persons who were at risk of poverty in 2010 had on average five at-risk-of-poverty years between 1995 and 2010.

## 8 Europe 2020 Strategy indicators

The EU poverty indicator consists of three dimensions: at risk of poverty, jobless households and material deprivation. The dimensions are overlapping: out of 150,000 persons in material deprivation, only 50,000 are merely materially deprived, and not at risk of poverty or underemployed. Around 120,000 jobless households are merely jobless, and not at risk of poverty. The AROPE indicator by Eurostat has diminished by around 20,000 persons between 2008 and 2010 but has since risen to a higher level than before. The annual fluctuations of the indicator components develop in different directions. However, the changes are not statistically significant (Figure 8).

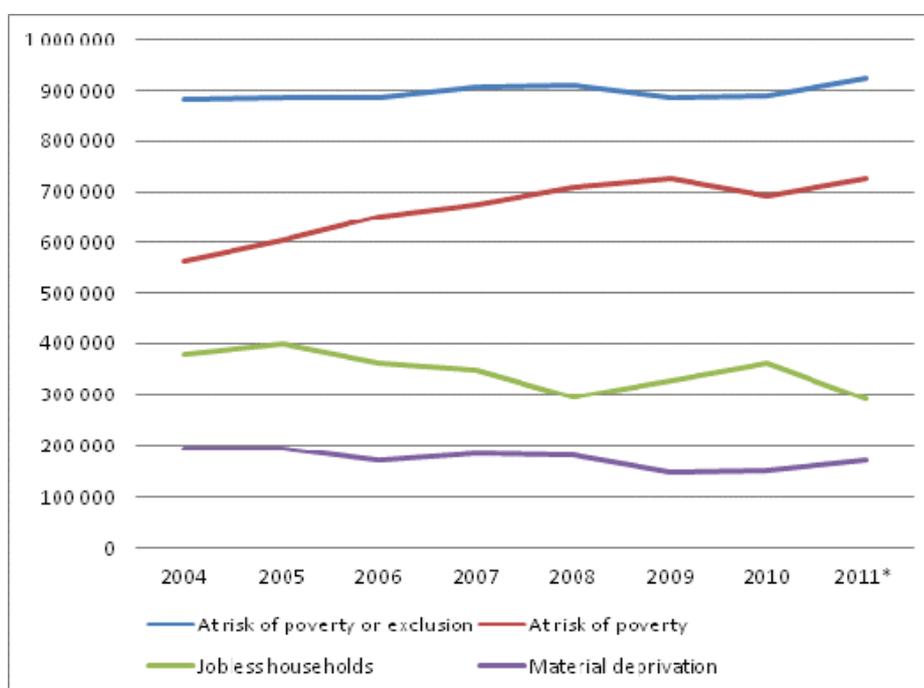


**Table 4. At risk of poverty and exclusion indicators**

| Year  | At risk of poverty or exclusion |         | At risk of poverty |         | Jobless households |         | Material deprivation |         |
|-------|---------------------------------|---------|--------------------|---------|--------------------|---------|----------------------|---------|
|       | Share                           | Persons | Share              | Persons | Share              | Persons | Share                | Persons |
| 2004  | 17.2                            | 885 000 | 11.0               | 564 000 | 9.3                | 380 000 | 3.8                  | 194 000 |
| 2005  | 17.2                            | 887 000 | 11.7               | 603 000 | 9.8                | 401 000 | 3.8                  | 195 000 |
| 2006  | 17.1                            | 886 000 | 12.6               | 650 000 | 8.9                | 363 000 | 3.3                  | 172 000 |
| 2007  | 17.4                            | 907 000 | 13.0               | 676 000 | 8.7                | 350 000 | 3.6                  | 185 000 |
| 2008  | 17.4                            | 910 000 | 13.6               | 709 000 | 7.3                | 296 000 | 3.5                  | 181 000 |
| 2009  | 16.9                            | 886 000 | 13.8               | 725 000 | 8.2                | 329 000 | 2.8                  | 148 000 |
| 2010  | 16.9                            | 890 000 | 13.1               | 692 000 | 9.1                | 364 000 | 2.8                  | 150 000 |
| 2011* | 17.4                            | 922 074 | 13.7               | 724 709 | 5.5                | 293 000 | 3.2                  | 170 000 |

2011\* Preliminary information from Statistics Finland

Source: Eurostat and Statistics Finland (preliminary information on 2011)

**Figure 8. At risk of poverty or exclusion and its components 2004–2011\***

Source: Eurostat

## 9 People living on basic social benefits

The working group assessing the sufficiency of basic income benefits states in its report of spring 2011 that the income level of people living on basic social benefits has decreased since 1990 (the period under review), with the exception of pension recipients. The income of persons on basic social benefits is not sufficient for a minimum level of consumption regarded as reasonable, and the poverty gap indicator shows that persons living on basic social benefits have more serious levels of poverty than other at risk of poverty groups.

The basic social benefits were adjusted at the beginning of 2012. The impact of the adjustments on the income of people on basic social benefits has been assessed using sample calculations as well as microsimulation models. According to simulated changes in income items, the poverty rate will decrease from 2009 (13.5%) to 2012 by 0.2 percentage points. The poverty rate for older people will decrease by 0.8 percentage points (12% in 2009), while the child poverty rate will rise by 0.3 percentage points (14.1% in 2009). (Source: Eurostat)



ce: Honkanen, Pertti ja Tervola, Jussi: Vuoden 2012 perusturvamuutoksien vaikutukset. Kelan tutkimusosasto. Nettityöpapereita 35/2012.)

Sample calculations have been used to examine how changes in basic social benefits affect those households where there are no other sources of income. Four different types of model families were used in the sample calculations (one adult, two adults with no children, one adult with one child, two adults with two children) that covered eight different combinations of basic social benefits (jobless household, pensioner household, household living on sickness or parental allowance, single-parent household receiving surviving spouse's pension, student household, household receiving child home care allowance, household receiving earnings-related unemployment security, low-wage household). The increases in unemployment security, housing allowance and social assistance at the beginning of 2012 have the greatest impact on the income of unemployed persons and single parents receiving social assistance. The income for these groups will increase by 7–8% in real terms. As a result, the income level of unemployed persons and single parents living on basic social benefits draws closer to the income level of median-wage households by 1–4 percentage points. (Source: Moisio, Pasi - Sallila, Seppo: Talousarvioesityksen 2012 vaikutuksista perusturvaan. THL, Raportti 20/2012.)

### **Employment and unemployment**

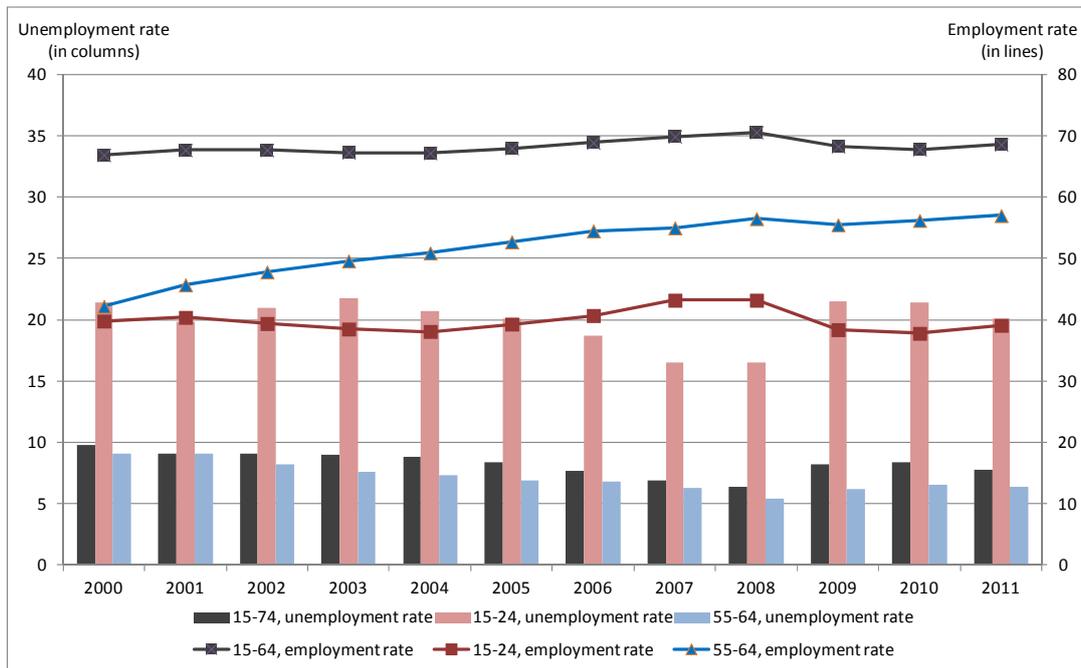
Unemployment took a downward turn in 2011 and, at the same time, the employment rate edged up. The unemployment rate was 7.8%, while the year before it was 8.4%. Unemployment among men decreased more than among women. However, the unemployment rate for men continues to be higher than for women. The employment rate for the population aged 15 to 64 was 68.6 per cent in 2011. In the previous year, it stood at 67.8 per cent.

Young people's labour market situation improved slightly in 2011 as the unemployment rate for the age group 15–24 decreased to 20.1%. It is, however, still higher than during the top years 2007 and 2008 of the 2000s when the youth unemployment rate was below 17%.

The employment rate for older people (age group 55–64) has risen since the late 1990s with the exception of a brief decline in the employment rate for older men in 2009 due to the financial crisis. The employment rate for older people is still, however, around ten percentage units lower than for people in working age.

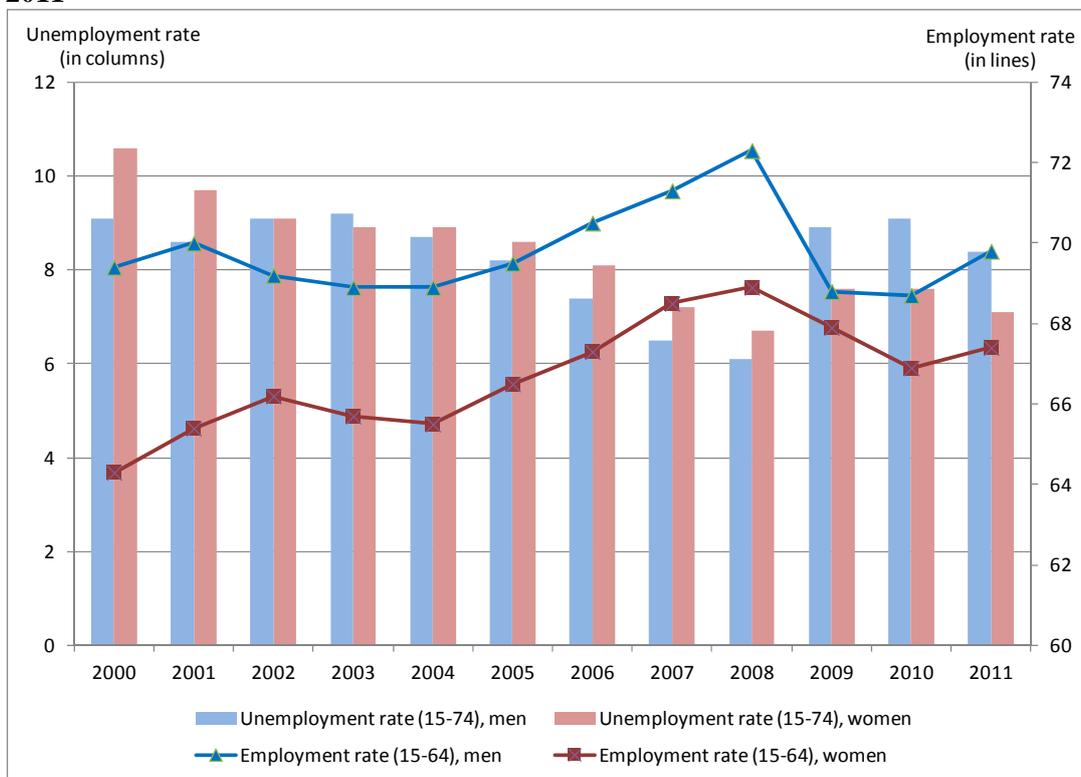


**Figure 9. Unemployment rate and employment rate by age group in 2000 - 2011**

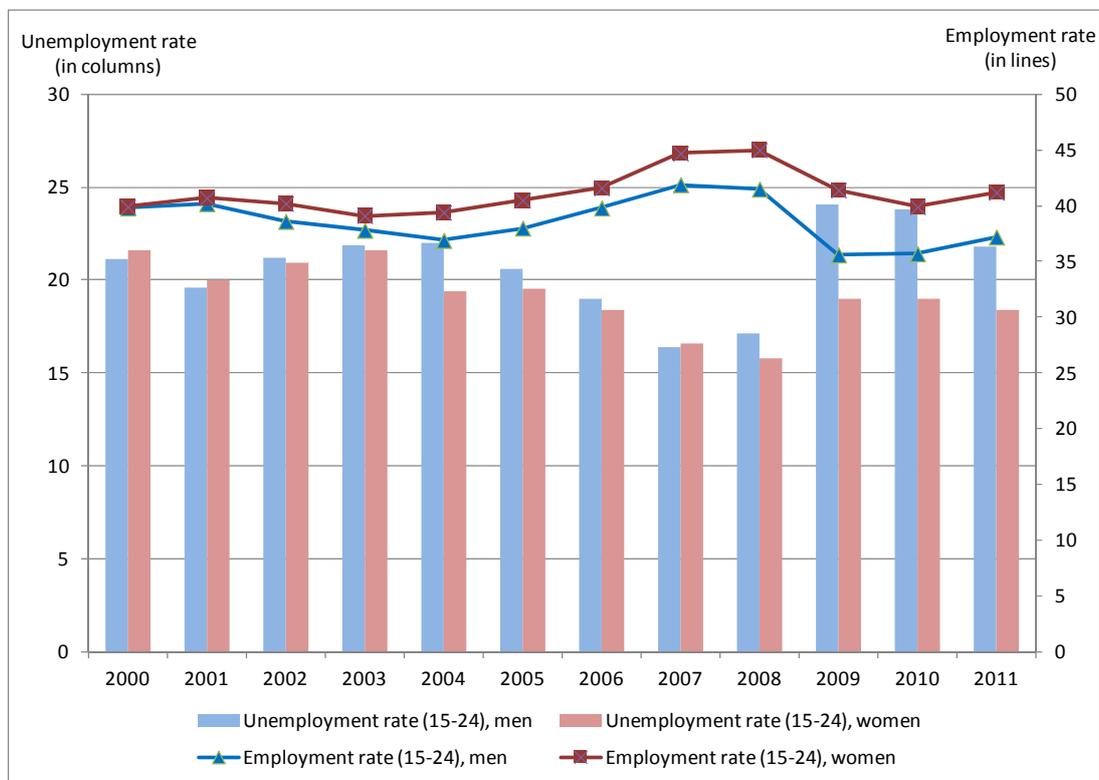


Source: Statistics Finland

**Figure 10. Unemployment rate and employment rate for people in working age by gender in 2000 - 2011**



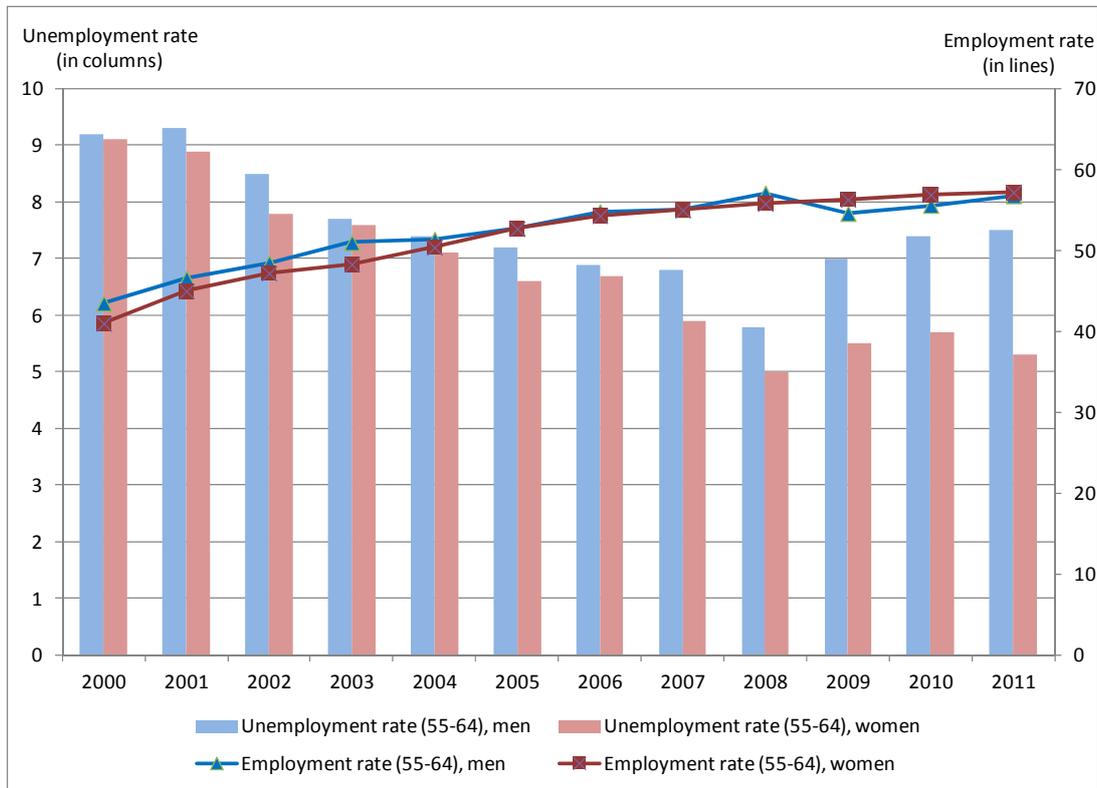
Source: Statistics Finland

**Figure 11. Unemployment rate and employment rate for youth by gender in 2000 - 2011**

Source: Statistics Finland



**Figure 12. Unemployment rate and employment rate for older workers by gender in 2000 - 2011**



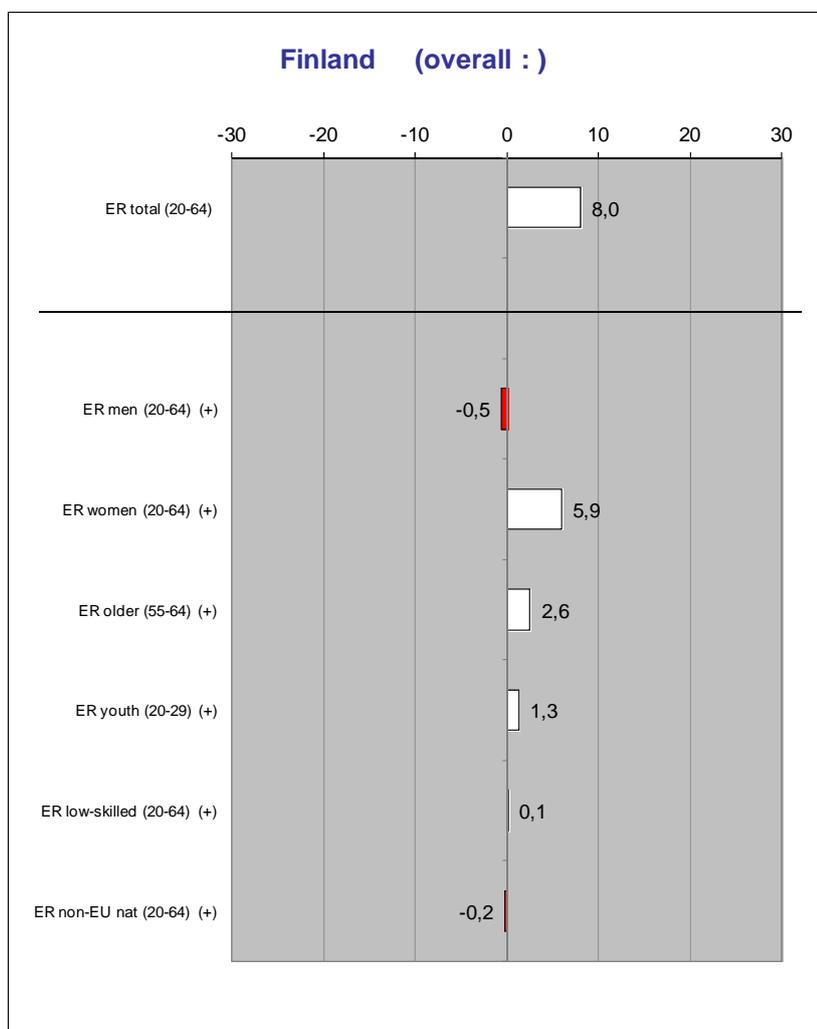
Source: Statistics Finland



The European Commission has created a new kind of monitoring and assessment system for tracking the progress of the Europe 2020 Strategy (Joint Assessment Framework). The framework produces visual representations where Member States are compared against each other and against the EU average.

In the figure below, the overall employment rate in a Member State (employment rate for the age group 20–64) is compared against the EU-average (the topmost bar). In addition, the figure provides information on the "drivers" that can help to explain why the overall employment rate for a specific country is above or below the EU-average. The rates in the figure are standardised<sup>1</sup> (i.e., they are not the true employment rates) so that different indicators can be compared against each other. Moreover, the data is proportioned to the size of the population group in question so that the data gives a real idea of the impact the employment situation of different population groups has on the overall employment rate.

The figure below is based on data from 2010. A general assessment based on the figure is that Finland's employment situation is slightly above average. Especially the female employment, but also the employment of older and young people, is slightly above average, while the employment of men and immigrants is slightly below average.



Source: European Commission



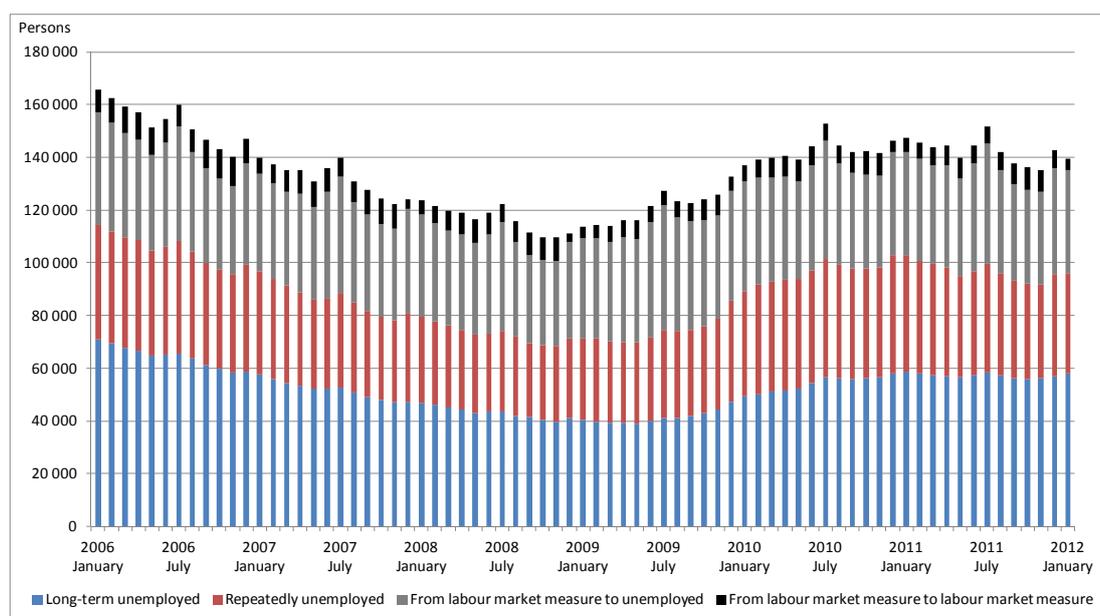
<sup>1</sup> Individual Score for each indicator = [(Indicator – EU average)/Standard deviation] \*10.

### Long-term unemployment

The better economic development since the beginning of 2010 has reflected on the number of those difficult to employ with a year's delay. As of 2011 the number of those difficult to employ has decreased after increasing since 2009 as a result of the economic recession.

Also the number of long-term unemployed took a slight fall since the beginning of 2011, although the trend turned upwards again by the end of the year. Until 2011, the number of long-term unemployed had been on the increase since autumn 2009. For other hard-to-employ groups (repeatedly unemployed persons, persons returning to unemployment after a labour market measure and persons transferring from measure to measure), the numbers started to increase already earlier, but for these groups also the decline started earlier than for the long-term unemployed. This is due to an increase both in the demand for labour and in the supply of labour market measures.

**Figure 13. Those difficult to employ (structural unemployment) in 2006 – 2011**



Source: Ministry of Employment and the Economy

The number of persons unemployed more than a year increased significantly in 2010. The rising trend continued in 2011, but the growth was less than the year before.

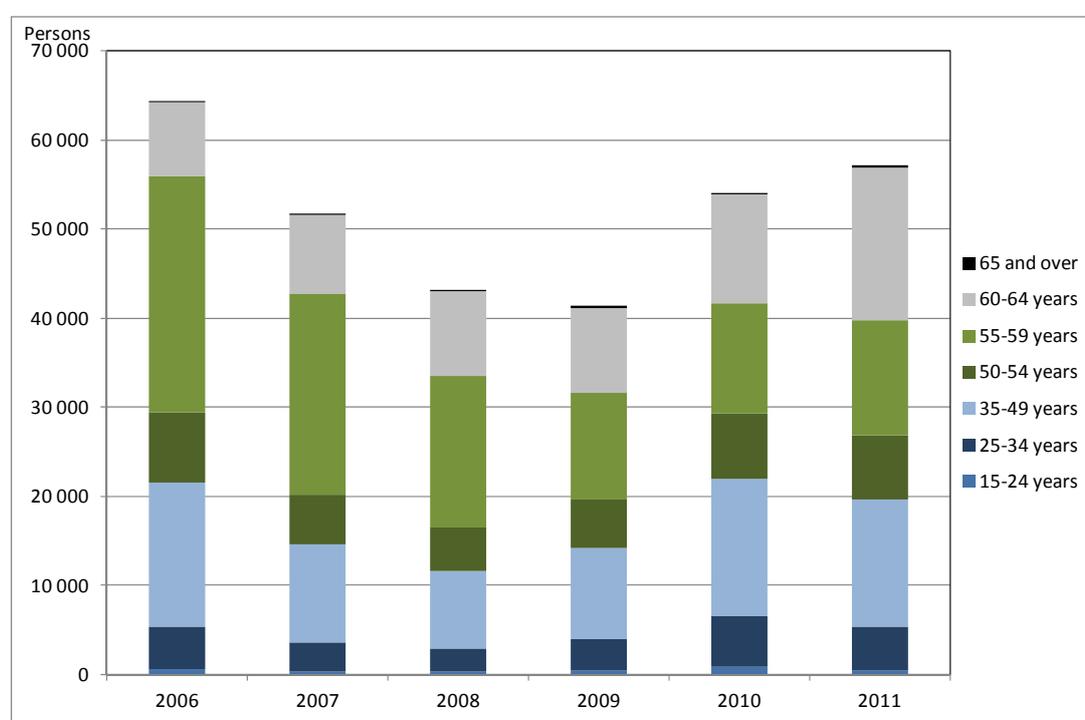


**Table 5. Long-term unemployed in 2006 – 2011**

|                                     | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
|-------------------------------------|--------|--------|--------|--------|--------|--------|
| Persons unemployed more than a year |        |        |        |        |        |        |
| Total                               | 64 400 | 51 700 | 43 100 | 41 300 | 54 000 | 57 200 |
| Men                                 | 35 400 | 28 100 | 23 500 | 23 800 | 32 900 | 34 100 |
| Women                               | 28 900 | 23 600 | 19 600 | 17 500 | 21 100 | 23 100 |

Source: Ministry of Employment and the Economy

A half of the long-term unemployed are in the age group 55–64 and more than a third in the age group 35–54. A tenth of the long-term unemployed are under 35 years of age. The number of long-term unemployed aged 65 or more is very small.

**Figure 14. Long-term unemployed by age group in 2006 – 2011**

Source: Ministry of Employment and the Economy

### Extended unemployment allowance for ageing unemployed persons

An ageing unemployed person, who meets the time at work condition, is entitled to extended unemployment allowance and can gain access to the so-called unemployment path to retirement. Unemployment allowance can be extended until the person turns 62 years of age and is entitled to full old-age pension. If the person so desires, he or she can continue as unemployed jobseeker with the help of the extended unemployment allowance until he or she turns 65 year of age.

In 2011, around 15,700 unemployed persons used the right to extension. The amount has decreased significantly in recent years: in 2005 the number of unemployed persons using their right to extension was over 24,000.

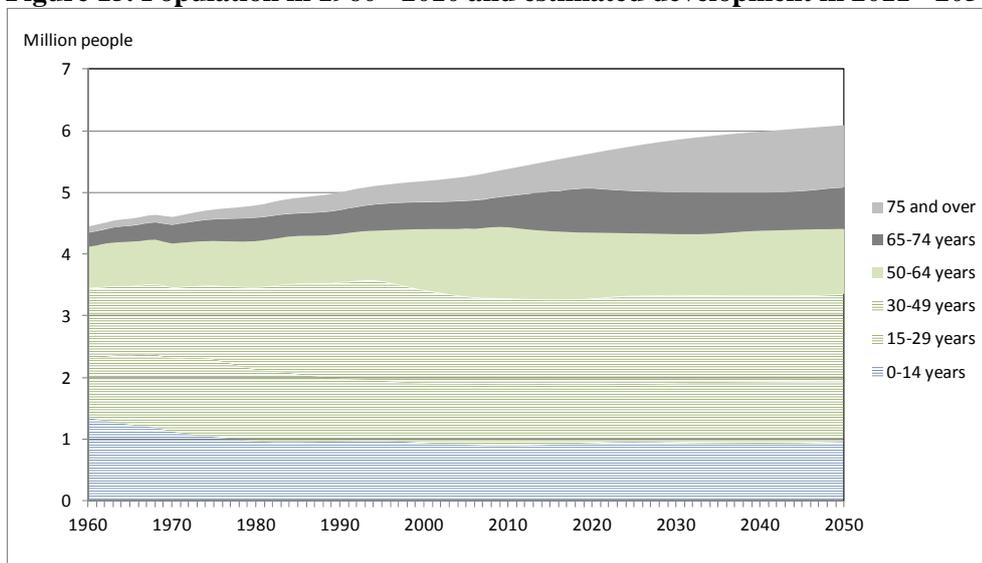


## Demographic trends

The proportion of the elderly in the population grows faster in Finland than in most of the other EU countries. While the rise in life expectancy is a significant social political achievement, the demographic change poses a great and permanent challenge for the sustainability of the public finances. According to the population projection, the share of over-64 year-olds of the population will increase to 27% in 2040. The greatest increase will be in the oldest age groups. The share of the working age population shrinks in the 2010s and 2020s. The age dependency ratio, i.e., the ratio of children and retirees to the working age population (age group 15–64) will decrease rapidly from 2010s onwards.

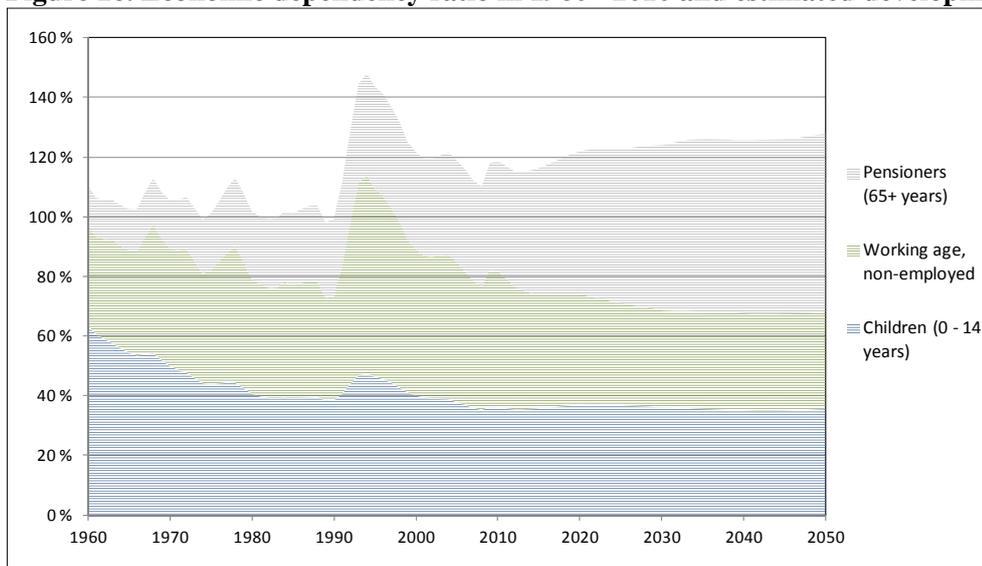
While the birth rate in Finland is among the highest in the EU countries, the current level is still insufficient to secure a balanced demographic development. It is expected that the proportion of children and young people in the population will decrease slightly in the next decades.

**Figure 15. Population in 1960 - 2010 and estimated development in 2011 - 2050 by age group**



Source: Statistics Finland

**Figure 16. Economic dependency ratio in 1960 - 2010 and estimated development in 2011 - 2050**



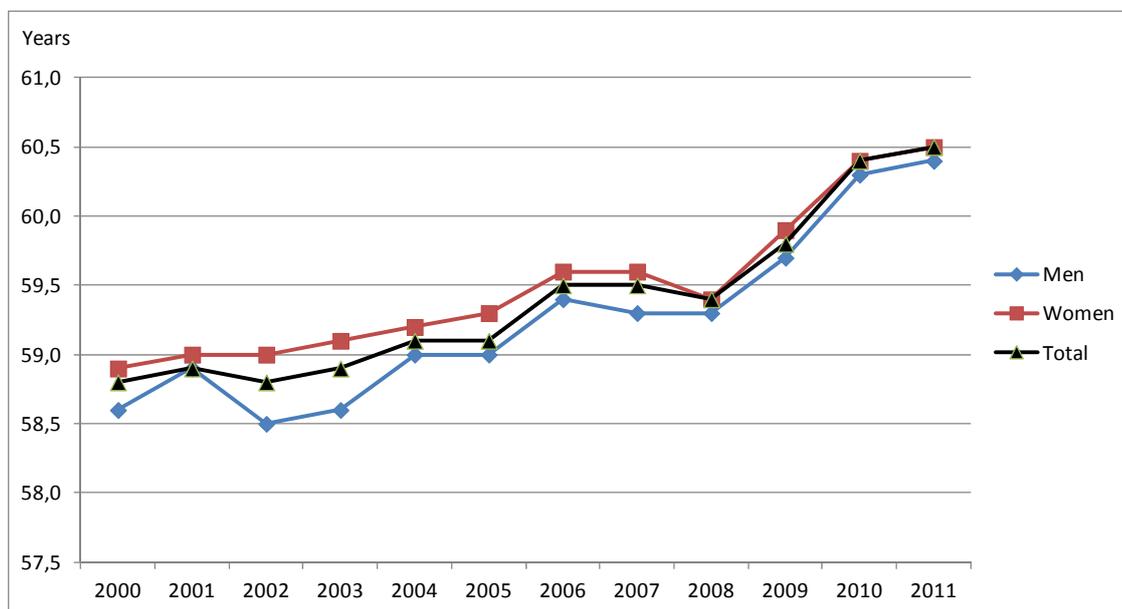
Economic dependency ratio gives the number of persons unemployed or outside the labour force per one employed person. Assumption: employment rate will rise to 75 percent by 2030.

Source: Statistics Finland and Ministry of Social Affairs and Health

### Developments in the length of working careers

The retirement age continues to rise. In 2011, the expected effective retirement age for 25-year-olds was 60.5 years and for 50-year-olds 62.4 years. Both figures increased by 0.1 years from the year before. The expected effective retirement age has risen by nearly 1.5 years compared to the level before the 2005 pension reform. Differences between women and men have decreased and, in recent years, the expected effective retirement age for men has been only slightly lower than for women. The working life expectancy was around 34 years in 2011. It is now 2.5 years higher than in 2000.

**Figure 17. Expected effective retirement age for 25-year-olds in 2000 - 2011 (in the earnings-related pension scheme)**



Source: Finnish Centre for Pensions

### Retiring on a disability pension

The number of persons retiring on a disability pension decreased in 2009 and 2010, while in 2011 the number of new disability pensions remained at the level of the year before. The age- and gender-standardised prevalence of disability pensions shows that the retiring on a disability pension has decreased significantly in the 2000s.



**Table 6. Number of persons having retired on a disability pension and age-standardised beginning of disability pensions in 2000 and 2007—2010**

|   | 2000   | 2007   | 2008   | 2009   | 2010   | 2011   |
|---|--------|--------|--------|--------|--------|--------|
| Number of persons having retired on a disability pension (in the earnings-related pension scheme)           |        |        |        |        |        |        |
| Total   | 22 839 | 25 422 | 25 574 | 23 870 | 22 898 | 22 983 |
| Men   | 12 144 | 12 948 | 13 019 | 12 246 | 11 576 | 11 465 |
| Women   | 10 695 | 12 474 | 12 555 | 11 624 | 11 322 | 11 518 |
| Age-standardised prevalence of disability pensions in the earnings-related pension scheme (%) <sup>1)</sup> |        |        |        |        |        |        |
| Total   | 8.7    | 8.4    | 8.4    | 7.6    | 7.2    | 7.2    |
| Men   | 9.1    | 8.5    | 8.4    | 7.7    | 7.2    | 7.1    |
| Women   | 8.3    | 8.4    | 8.3    | 7.5    | 7.2    | 7.4    |

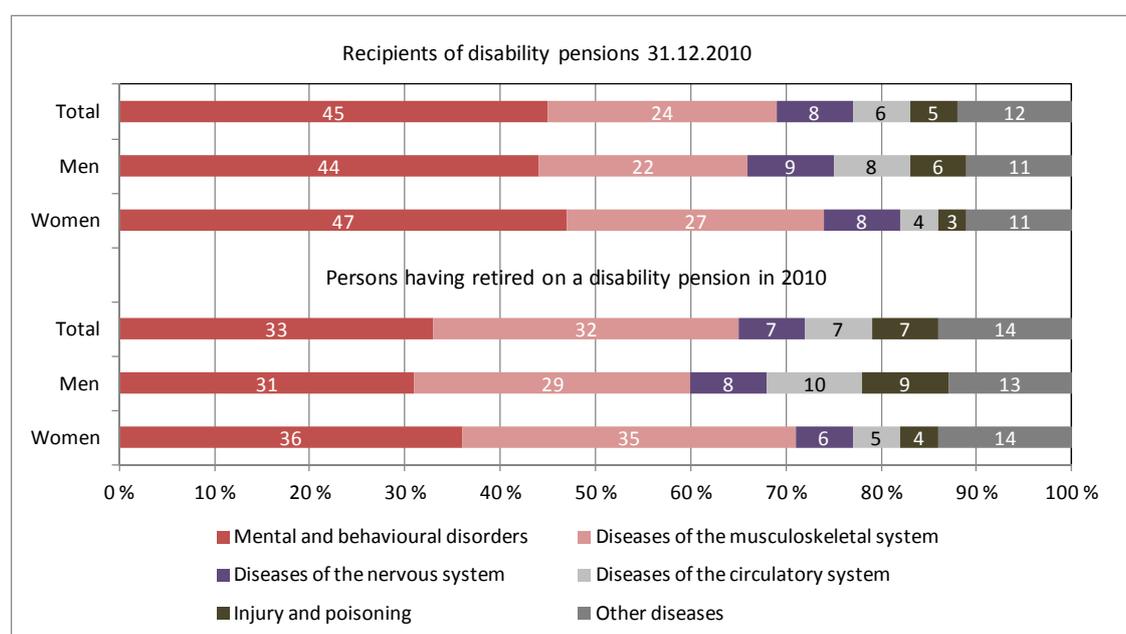
<sup>1)</sup> The standardisation year is 2000.

Source: Finnish Centre for Pensions

At the end of 2010, the number of persons receiving disability pension was 259,000 and, during the year, 24,800 persons retired on a disability pension (most of them, i.e., 23,000, were transferred from the earnings-related pension scheme). The share of men of the persons receiving disability pension was 53% and of the persons retiring on a disability pension 51%. The transfers from the earnings-related pension scheme were divided evenly between men and women.

Around one-third of all the persons retiring on a disability pension had a disease of the category of mental and behavioural disorders, while nearly as many retired on disability pension due to musculoskeletal disorders. Two-thirds of those below the age of 45 had a mental disorder, while a half of those aged 55 years or more had a musculoskeletal disorder. Since the beginning of the 2000s, mental disorders have been the most common factor behind disability pensions.

**Figure 18. Persons having retired on a disability pension in 2010 and recipients of disability pension as at 31.12.2010 by main diagnosis**



Source: Finnish Centre for Pensions

### Persons with partial work ability

In 2010, around one-fifth of the persons retiring on a disability pension retired on a partial disability pension. The share of partial disability pensions has increased significantly in recent years. In 2010, nearly 4,500 persons retired on a partial disability pension and of these two-thirds were women. Over 50% of persons retiring on a partial disability pension had a musculoskeletal disorder, while 17% had a mental disorder. In 2010 the total number of persons receiving partial disability pension was 21,000. The number is one-third higher than in 2005.

**Table 7. Number of persons having retired on a partial disability pension in 2005 - 2010**

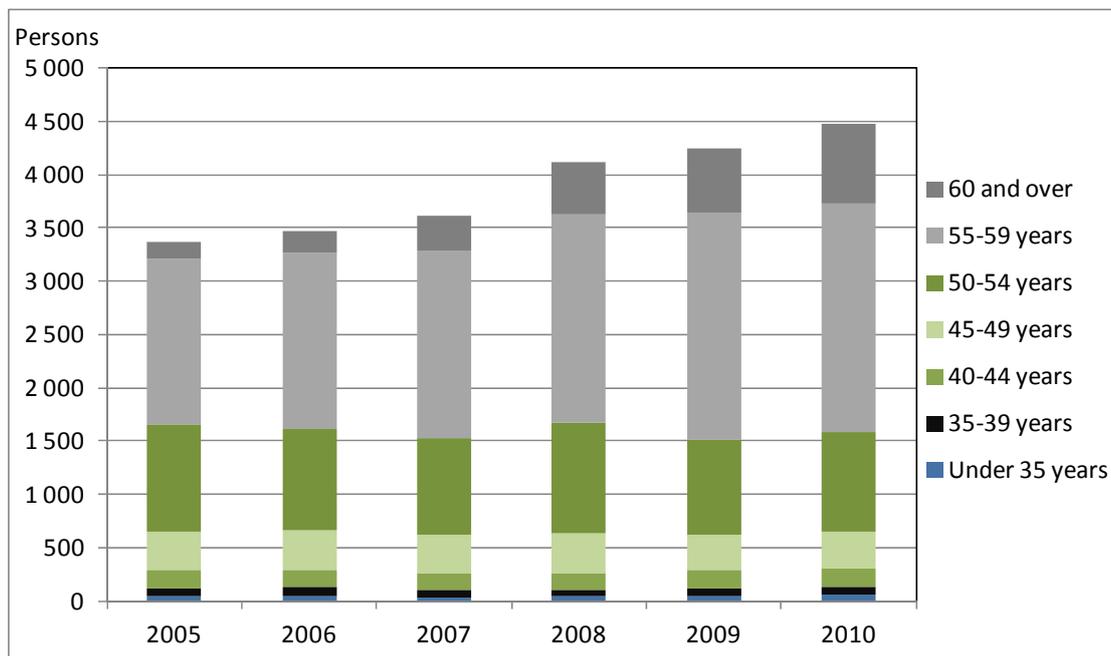
|  | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Total  |               |               |               |               |               |               |
| - % all persons having retired on a disability pension | 3 372<br>13 % | 3 475<br>14 % | 3 615<br>14 % | 4 117<br>16 % | 4 240<br>18 % | 4 480<br>20 % |
| Men  |               |               |               |               |               |               |
| - % all men having retired on a disability pension     | 1 138<br>9 %  | 1 170<br>9 %  | 1 227<br>9 %  | 1 316<br>10 % | 1 431<br>12 % | 1 407<br>12 % |
| Women  |               |               |               |               |               |               |
| - % all women having retired on a disability pension   | 2 234<br>19 % | 2 305<br>19 % | 2 388<br>19 % | 2 801<br>22 % | 2 809<br>24 % | 3 073<br>27 % |

Source: Finnish Centre for Pensions

In 2010, two-thirds of the persons retiring on a partial disability pension were aged 55 years or more. In recent years, the rise in the number of persons retiring on a partial disability pension has been in the age group 55 and over.



**Figure 19. Number of persons having retired on a partial disability pension by age group in 2005 - 2010**



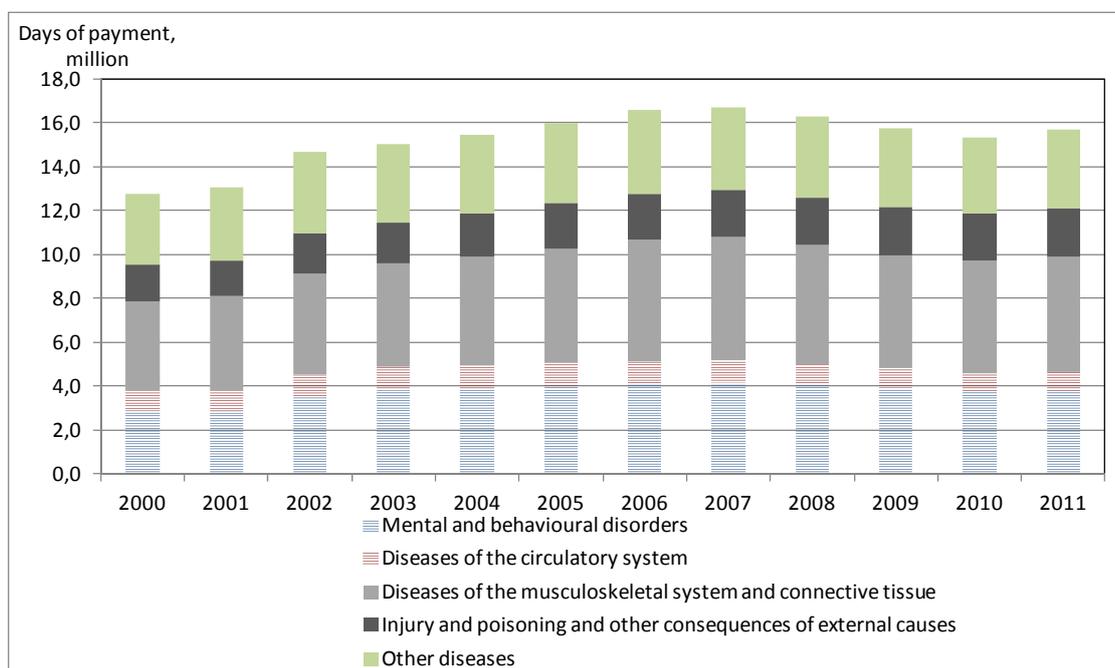
Source: Finnish Centre for Pensions

Of all the new sickness allowance periods in 2011 (a total of 332,000 periods) one-third was in the category of diseases of the musculoskeletal system. In 2011, a total of 15.7 million days of sickness allowance were reimbursed, and 5.3 million days (33.7%) of these were due to musculoskeletal disorders. Musculoskeletal disorders accounted for 32.6% of sickness allowance days reimbursed for men and for 34.7% of days reimbursed for women. In 2000, a total of 12.8 million days of sickness allowance were reimbursed, and 31.9% of these were due to musculoskeletal disorders.

The number of sickness allowance days has been declining for a couple of years. The sickness allowance days due to musculoskeletal disorders account for most of the decrease.



**Figure 20. Sickness allowance, days of payment by diagnosis in 2000 – 2011**

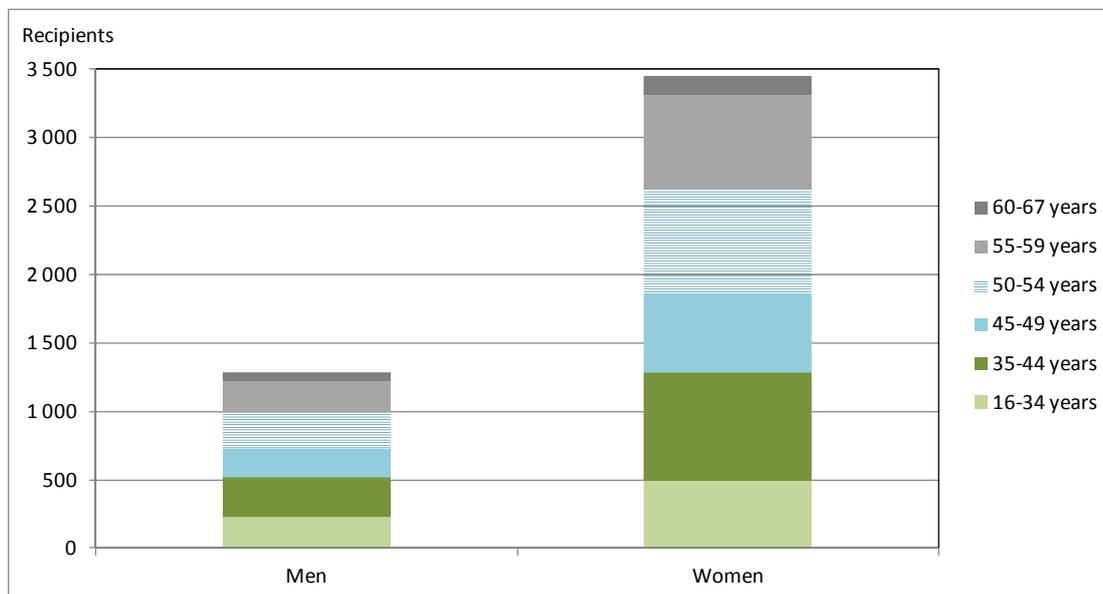


Source: The Social Insurance Institution

Partial sickness allowance can be granted for an employed or self-employed person between the ages of 16 and 67 who, due to disability, is returning to work on a part-time basis. The purpose of partial sickness allowance is to make returning to work easier after absence from work due to sickness. The partial sickness allowance is 50% of the sickness allowance, and it is granted for a minimum of 12 and a maximum of 72 working days. The employee's work duties and pay should decrease by 40–60%.

4,700 persons received partial sickness allowance in 2010. The number is nearly twice as high as the year before, when it was 2,200. A law amendment that took effect in early 2010 explains most of the growth. According to the amendment, the period of partial sickness allowance can begin directly after the qualifying period for sickness allowance, while before it was required that a period of sickness allowance precedes the partial sickness allowance.

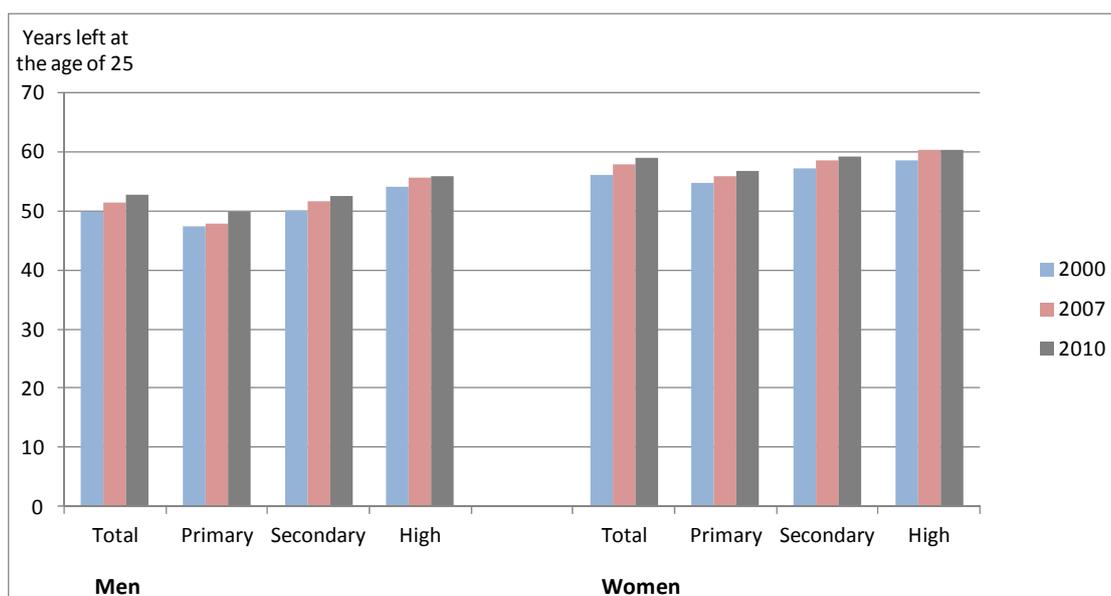


**Figure 21. Partial sickness allowance, recipients in 2010 by gender and age group**

Source: The Social Insurance Institution

### Health inequalities

As a whole, the population's overall state of health has improved in the 2000s. However, health inequalities between social groups and genders have remained great. Significant health inequalities exist also between marital statuses and geographical regions. The most important factors behind differences in health are living conditions and lifestyles, such as alcohol use, smoking, nutrition and physical exercise. Socio-economic differences in health are already visible among children and young people.

**Figure 22. Average life-expectancy at 25 years of age by level of education in 2000, 2007 and 2010**

Source: National Institute for Health and Welfare (2000 and 2007) and Eurostat (2010)

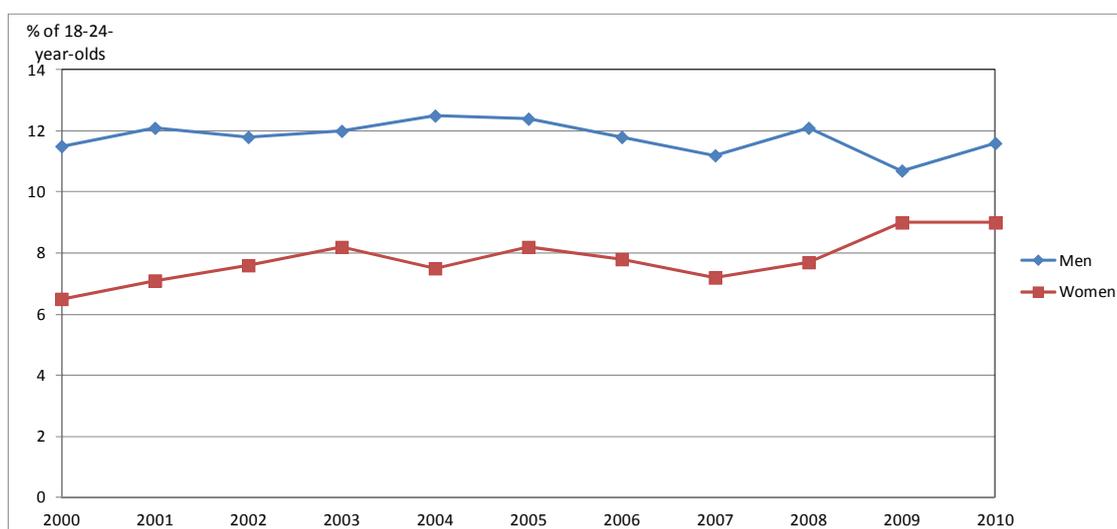


## Social exclusion of young people

In 2010, there were around 51,300 socially excluded young people in the age group 15–29. In other words, 5% of the age group were socially excluded. Of this group, 18,800 persons were unemployed jobseekers and 32,500 persons were outside the workforce for other reasons. A young person is deemed socially excluded if he or she is not working or studying and if he or she has no post-lower-secondary education. The worst off are the 32,500 young persons who are not even registered as unemployed jobseekers.

Around one-tenth of the age group 18–24 are early leavers from education. The share is slightly higher for boys than for girls. The early leavers from education includes persons who have no post-lower-secondary education or who are not studying during the year. Some of these young persons are in the army or on parental or childcare leave.

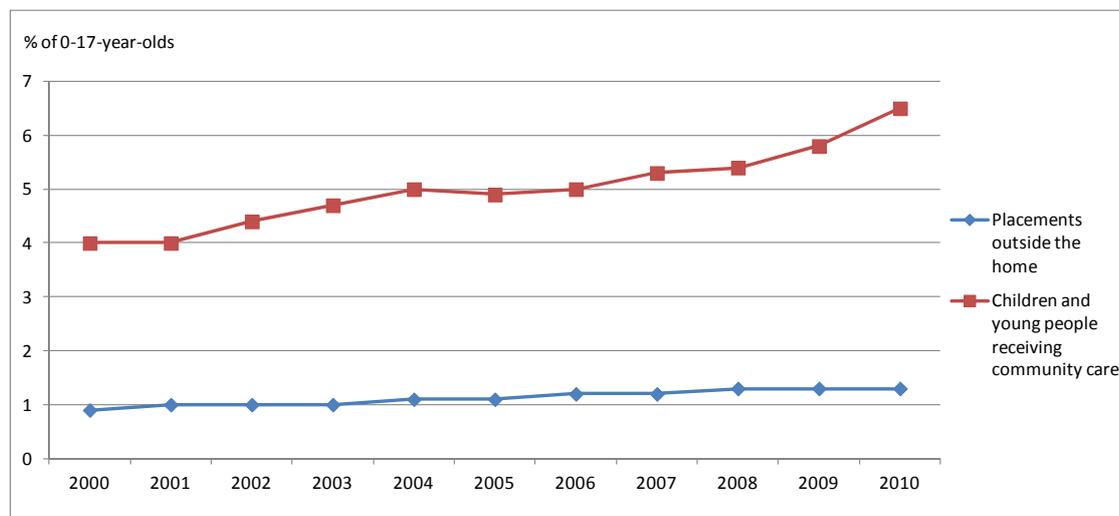
**Figure 23. Early leavers from education: percentage of the population aged 18-24 with at most lower secondary education and not in further education or training in 2000 - 2010**



Source: Eurostat

In 2010, there were around 78,600 children and young people as clients in child welfare social work and assistance in open care, which is 11% more than the year before. The 2008 Child Welfare Act and its amendments (such as lower notification threshold) explain some of the growth. Over 88,000 child welfare notifications were submitted in 2010, concerning nearly 58,000 children. After the need for child welfare was investigated, around 31,500 children were registered as new clients in open care in child welfare. Around 17,000 children and young persons were placed outside the home, which is approximately 1% more than the year before.

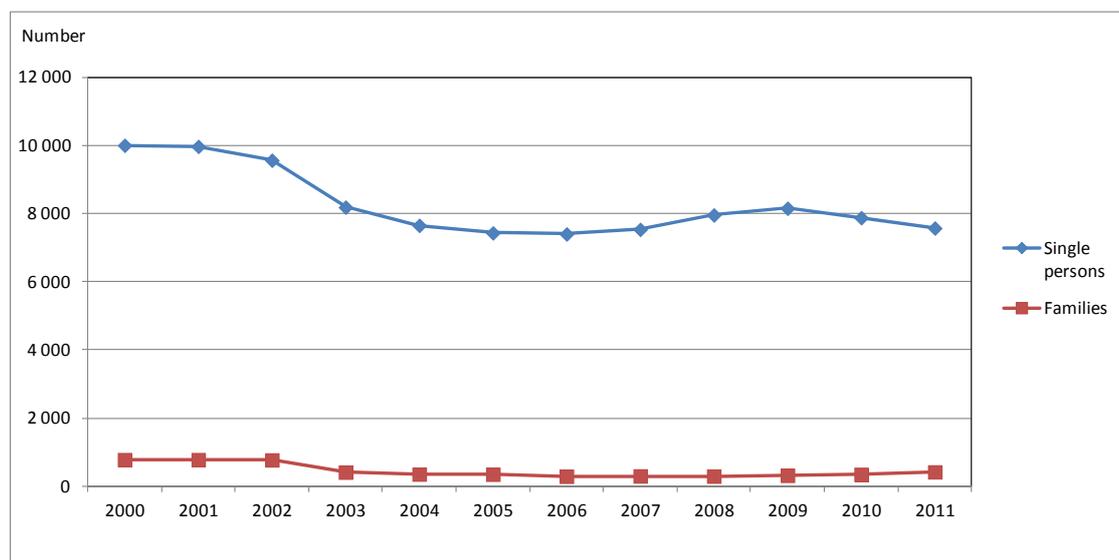


**Figure 24. Child welfare in 2000 – 2010**

Source: National Institute for Health and Welfare

### Homelessness

The number of single homeless persons has remained at the level of around 8,000 since 2003. The number has decreased slightly since 2009 and was around 7,600 in 2011. There were 2,800 long-term homeless persons, which is 21% less than in 2008. The number of homeless families increased in 2011 significantly from the year before. Homelessness has also increased among women and immigrants. Nearly a half of all homeless people live in Helsinki.

**Figure 25. Homelessness in 2000 - 2011**

Source: The Housing Finance and Development Centre of Finland

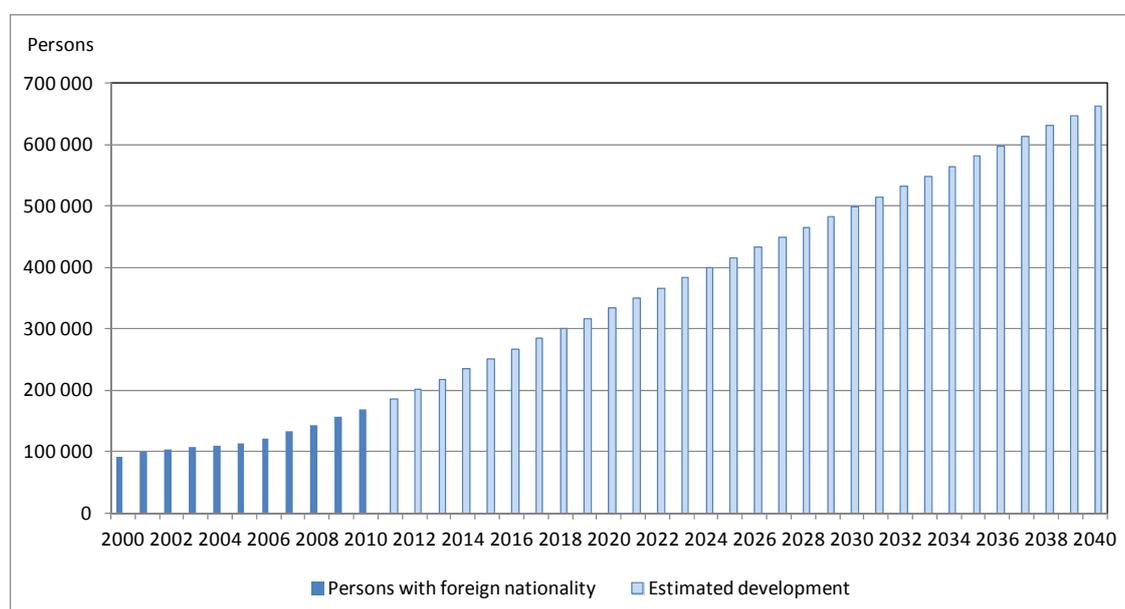


## Immigrant population

The immigrant population is growing fast in Finland. In 1999, when the first Act on the Integration of Immigrants and Reception of Asylum Seekers took effect, there were around 87,800 people with foreign nationality in Finland. By the end of 2010, the number of foreign citizens was 167,962, which means that it has nearly doubled in ten years. 25,650 persons moved to Finland in 2010, and of these, 12,200 persons came from other EU countries. In the last four years, an annual average of 11,000 foreign citizens has settled permanently in Finland.

It is estimated that the number of foreign citizens in Finland will continue to rise significantly in the years to come, totalling around 330,000 in 2020 and around 498,000 in 2030.

**Figure 26. People with foreign nationality in 2000-2010 and estimated development in 2011-2040**



Source: Statistics Finland

The immigrant population is younger than the whole of the population. Around 80% of all the foreign citizens residing in Finland in 2010 were of working age (66% of all Finnish citizens), and 60% were part of the labour force (75% of all Finnish citizens).

It has been estimated that around 90,000 people with foreign nationality work in Finland every year. Of these, around 40,000 work in Finland temporarily. For a longer period of time, the unemployment rate for foreign citizens has been nearly three times higher than the overall population unemployment rate. It was on average 21% in 2011, but it varies a lot according to nationality and region. Nevertheless, it should be noted that employment improves significantly as the years of residence in Finland increase. For persons who moved to Finland in 2000, the employment rate for that year was below 30%, but, by 2008, it increased to over 55%.



## Pensions

**Table 8. Number of pension recipients in 2007—2010**

|                            | 2007    | 2008      | 2009      | 2010      |
|----------------------------|---------|-----------|-----------|-----------|
| Old-age pension            | 978 300 | 1 005 300 | 1 048 379 | 1 093 267 |
| Men                        | 402 700 | 417 200   | 439 936   | 462 881   |
| Women                      | 575 600 | 588 070   | 608 443   | 630 386   |
| Part-time pension          | 30 000  | 29 100    | 27 887    | 28 764    |
| Men                        | 13 600  | 13 100    | 12 361    | 12 381    |
| Women                      | 16 400  | 16 000    | 15 526    | 16 383    |
| Disability pension         | 271 600 | 272 878   | 272 326   | 267 248   |
| Men                        | 143 600 | 143 702   | 142 996   | 139 850   |
| Women                      | 128 100 | 129 176   | 129 330   | 127 398   |
| Unemployment pension       | 50 300  | 50 800    | 46 602    | 33 938    |
| Men                        | 23 400  | 23 400    | 20 580    | 14 119    |
| Women                      | 26 900  | 27 300    | 26 022    | 19 819    |
| Surviving spouse's pension | 263 400 | 263 500   | 263 818   | 263 480   |
| Men                        | 35 400  | 36 400    | 37 284    | 37 992    |
| Women                      | 228 000 | 227 100   | 226 534   | 225 488   |

**Table 9. Pension expenditure in 2007—2010, million euro**

|                       | 2007   | 2008   | 2009   | 2010   |
|-----------------------|--------|--------|--------|--------|
| Old-age pensions      | 13 050 | 13 827 | 15 302 | 16 311 |
| Part-time pensions    | 214    | 216    | 221    | 224    |
| Disability pensions   | 3 122  | 3 061  | 3 160  | 3 147  |
| Unemployment pensions | 679    | 723    | 696    | 527    |
| Survivors' pensions   | 1 493  | 1 536  | 1 615  | 1 625  |

**Table 10. Average pensions in 2007—2010, euro/month**

|  | 2007  | 2008  | 2009  | 2010  |
|--|-------|-------|-------|-------|
| National pension, single person  | 525   | 558   | 584   | 584   |
| Average pension in one's own right (incl. national pension and earnings-related pension) |       |       |       |       |
| Recipients of old-age pensions   |       |       |       |       |
| Men  | 1 507 | 1 557 | 1 659 | 1 687 |
| Women  | 971   | 1 000 | 1 071 | 1 097 |
| Recipients of disability pensions  |       |       |       |       |
| Men  | 1 117 | 1 077 | 1 117 | 1 119 |
| Women  | 934   | 891   | 927   | 929   |
| Persons having retired on an old-age pension   |       |       |       |       |
| Men  | 1 814 | 1 793 | 1 922 | 1 974 |
| Women  | 1 250 | 1 199 | 1 326 | 1 365 |
| Persons having retired on a disability pension   |       |       |       |       |
| Men  | 1 044 | 1 018 | 1 090 | 1 126 |



|       |     |     |     |     |
|-------|-----|-----|-----|-----|
| Women | 841 | 809 | 842 | 884 |
|-------|-----|-----|-----|-----|

Source: Finnish Centre for Pensions

