

FINLAND 1997

1. Overview of the system

There exists a three-tier system of unemployment benefits: a basic benefit, an earnings related benefit and a means-tested benefit. The earnings related supplement is paid to insured people only; insurance is voluntary. Housing costs are covered through a separate income related scheme. There is a social assistance scheme which guarantees a minimum income for every inhabitant of the country. The tax unit is the individual. The 1997 APW earnings level is Fmk 140 619.

2. Unemployment insurance

The basic benefit and the earnings related benefit are for the purposes of this study classified as unemployment insurance. The follow-up benefit (Labour Market Support) is classified as unemployment assistance. The basic benefit is funded by the state; the earnings related scheme is funded by the state, employers, and employees.

2.1 *Conditions for receipt*

Payable to any registered unemployed person, who is between 17 and 64 years old, who is available for and actively seeking work.

2.1.1 *Employment conditions*

43 weeks of work (minimum of 18 hours per week) in the last 24 months.

2.1.2 *Contribution conditions*

Earnings-related benefit: 10 months of voluntary contribution to an insurance fund preceding the claim.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

Basic benefit: Fmk 118/day (5 days/week).

Earnings related benefit: 42 per cent of daily reference earnings (DRE) in excess of the basic benefit; plus 20 per cent of DRE in excess of Fmk 493.95.

The daily reference earnings are calculated as follows:

M = gross earnings in the reference year / 12.5 (monthly earnings are calculated here to exclude additional holiday pay, hence the division by 12.5 instead of 12; note that in practice the 43 week period needed to fulfil the employment condition is also used as reference period, excluding additional holiday pay).

$$D = M / 21.5 \text{ (21.5 working days/month)}$$

$DRE = D * 95.5$ per cent (pension and unemployment insurance contributions are covered by a fixed payment set at 4.5 per cent by the Ministry of Social Affairs in order to avoid “over compensation” since these contributions are paid from wage and salary income). These contributions are not paid on benefit income.

The earnings related benefit is calculated from the basic benefit excluding the child supplement. The child supplement is then added to earnings related benefit.

Child supplement	Rate (in Fmk per day*)
1 child	24
2 children	35
3 or more children	45

* Monthly/yearly equivalents are obtained using 21.5 days per month, 12 months per year.

Note that if both parents are unemployed, both receive the basic allowance and both receive the child supplement.

2.2.2 *Income and earnings disregards*

If an unemployed person begins to work part-time, he/she is entitled to receive (for a certain period) a so called adjusted unemployment benefit. The working hours may not exceed 75 per cent of the working hours of full-time work. The unemployment benefit is reduced by 50 per cent of gross income. The maximum amount of adjusted benefit may not exceed 90 per cent of reference earnings.

2.3 *Tax treatment of benefit*

Taxable, but social security contributions are reduced. Only the Sickness Insurance and the National Old Age Pension contributions are levied on the benefits.

2.4 *Benefit duration*

Paid for at most 500 days (5 days/week; 100 weeks) in any four-year period after a 7-day waiting period.

Note that 43 weeks of work during the 24-month period (minimum 18 hours a week) fulfils the employment condition for starting a new 500 days earnings-related period. The reference earnings are based on the most recent earnings fulfilling the employment conditions. However, the new earnings related benefit level must be at least 80 per cent of the previous benefit level

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

Persons who become unemployed at the age of 55 years and one month are entitled to the benefit until the age of 60. After 60 they are usually entitled to an unemployment pension until they receive their old age pension at age 65.

3. Unemployment assistance

Labour Market Support (LMS) is aimed at promoting first time entrants and recipients' re-entry to the labour market.

3.1 Conditions for receipt

Payable to any registered unemployed person, who is between 17 and 64 years old, who is available for and actively seeking work.

3.2 Calculation of benefit amount

3.2.1 Calculation of gross benefit

The maximum Labour Market Support benefit is equal to the basic unemployment allowance (see Section 2.2.1), with the exception of the child supplements, which are lower.

Child supplement	Rate/day
1 Child	9.6 Fmk/day
2 Children	14 Fmk/day
3+ Children	18 Fmk/day

3.2.2 *Income and earnings disregards*

The income test is suppressed:

- during the first 180 days for persons who have previously received the unemployment allowance for the maximum period allowed (500 days);
- for unemployment allowance recipients aged 55 or more;
- during any period in which the recipient participates in measures supporting his/her integration into the labour market that have been arranged by an employment authority.

The income-test is applied to the combined monthly gross income of the recipient and the partner; the latter's earnings are excluded until Fmk 300/month. The disregarded amount equals Fmk 5 540 per annum for a couple or Fmk 3 700 per annum for a single plus Fmk 630 per annum for each dependent child. The LMS benefit is reduced by 50 per cent of the gross income exceeding the disregard.

3.3 *Tax treatment of benefit*

Taxable, but social security contributions are reduced. Only the Sickness Insurance and the National Old Age Pension contributions are levied on the benefits.

3.4 *Benefit duration*

Unlimited. There is a seven-day waiting period for all recipients of benefits. First-time entrants to the labour market must complete a 5-month waiting period (unless they have recently graduated from a vocationally oriented educational institute).

3.5 *Treatment of particular groups*

3.5.1 *Young persons*

First time entrants to the labour market who live with their parents only get 60 per cent of the benefit, unless they participate in a labour policy measure. Since 1997 new, tougher eligibility conditions have been applied to young persons. A person aged 17-24 may not decline a job or training offer or choose not to apply for vocational training.

3.5.2 *Older workers*

Means-testing for previous unemployment allowance recipients aged 55 or more has been suppressed.

4. Social assistance

Social assistance allowance is a residual social benefit which acts as a final safety-net. There are two nation-wide basic standard levels for different municipality categories; Category I (the most generous) is used.

4.1 Conditions for receipt

It is paid conditional on passing a means test.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

Family size	Rate (Category I) (in Fmk per month)	Per cent of single rate
Single/Lone parent	2 021	100
Couple (per person)	1 718	85
Allowance per child		
Child over 17*	1 475	73
Child 10-16	1 415	70
Child under 10	1 334	66

* Children aged 17 or over, living with their parents constitute their own household when social assistance is calculated.

The rates presented here are basic amounts for “every day living costs.” Additional social assistance is granted to cover reasonable housing costs or other costs (such as health care, work-related expenses).

4.2.2 Income and earnings disregards

No disregards: all earnings from paid work and all social/family benefits included in this chapter reduce the maximum benefit. Some municipalities may disregard some earnings if they are considered to promote the independence of the recipient.

4.3 Tax treatment of benefit

Not taxable.

4.4 Benefit duration

As long as the means-test is satisfied.

4.5 Treatment of particular groups

4.5.1 Young persons

See Section 4.2.1.

4.5.2 Older workers

None.

5. Housing benefits

There are three income-related schemes:

- a general housing allowance available to families, couples and single people of limited means;
- a housing allowance for pensioners (not considered);
- an allowance scheme for students (not considered).

5.1 Conditions for receipt

Income-tested.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

The housing benefit is limited to certain income bands that vary with the number of persons in the household and with the geographical location. The general housing allowance is 80 per cent of the difference between the rent and a so-called “deductible amount”. The deductible amount is determined by the family type and the geographical location and increases linearly with gross income (without social benefits). The following rates are for the areas of Helsinki, Espoo, Kauniainen and Vantaa.

Number of persons in the household	Gross income (in Fmk per month) where deductible amount = 100	Gross income where deductible amount increases with earnings	Deductible amount associated to increasing gross earnings	Gross income limit above which there is no housing benefit (in Fmk per month)
1	0 - 1 500	1 501 - 5 900	128 - 1 767	5 901
2	0 - 1 900	1 901 - 8 500	108 - 2 674	8 501
3	0 - 3 400	3 401 - 13 200	125 - 3 492	13 201
4	0 - 4 200	4 201 - 14 800	117 - 4 031	14 801

5	0 - 5 100	5 101 - 17 400	118 - 4 711	17 401
6	0 - 5 900	5 901 - 19 900	101 - 5 219	19 901
7	0 - 6 800	6 801 - 21 500	113 - 5 678	21 501
8	0 - 7 500	7 501 - 23 200	107 - 6 118	23 201

5.2.2 *Income and earnings disregards*

There is a special disregards for lone parents with one child of Fmk 1 500. Earnings and unemployment benefits are taken into the means-test; family benefits are disregarded.

5.3 *Tax treatment of benefit*

Not taxable.

5.4 *Treatment of particular groups*

Students and pensioners have special housing allowances.

6. **Family benefits**

6.1 *Conditions for receipt*

To have a dependent child under 17 years old.

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

Rate per child (from 1/7/1995) (in Fmk per month)	
1st child	535
2nd child	657
3rd child	779
4th child	901
5th and subsequent	1 023

6.2.2 *Income and earnings disregards*

Universal, not means-tested.

6.3 *Tax treatment of benefit*

Not taxable.

6.4 *Treatment of particular groups*

6.4.1 *Lone parents*

Additional allowance of Fmk 200 per child per month.

7. **Child-care benefits**

The fees for public day-care are related to the income level of the parents. These fees cover only a small part of the actual costs. Since 1.8.1997 all children under the school age have been entitled to public day care. At the same time the calculation of the day care fees were changed. Here we calculated the amounts of day care fees. There is also a separate benefit to those families with children under 3 years old that do not use public day care, known as the home care allowance.

7.1 *Conditions for receipt*

Public day care is available to all children under 7 years old. The day care fees are income related; higher the family income, higher the fees. The fee is a portion of the family income exceeding the income limit. These limits are percentages are different for each family type. Only children under 7 are included in the calculation, with a maximum of 2 children. There is an additional income disregard (500 Fim/month) for other children aged 0-17 in the family.

7.2 *Calculation of benefit amount*

7.2.1 *Calculation of gross benefit*

All amounts in the following table are monthly:

Family size (parents + children>7, max 2)	Income limit, Fim per month	Per cent of income exceeding income limit
2	5 150	11.5 %
3	6 350	9.4%
4	7 540	7.9%

If there are more than two children in the same family in the public day care, the fees of the third and subsequent children are 20 per cent of the fee for the first child. The maximum fee is 1 000 Fim/child/month. If the day care fee amounts to less than 100 Fim, it is not paid.

For families with children under three years old who do not use public day care, there is a home care allowance, which includes a care allowance and a care supplement. The care allowance is 1 000 Fim per month for the first child under three years old, 500 Fim per month for other children under three years old and 300 Fim per month for children between three and six years old. Care supplement is means tested. The maximum amount is 1 000 Fim per month and it is payable for only

one child. (This benefit is not included in our calculations since for our publication children are assumed to be four and six years old.)

In addition to the home care allowance, there is also an alternative allowance for those who use private day care for children under 7 years old and do not receive home care allowance for any children in the family. This is the allowance for private day care. The rates and rules are somewhat different from home care allowance. This income is taxed as the income of the provider of the day care services.

7.2.2 Income and earnings disregards

Gross family income is taken into the income-test.

7.3 Tax treatment of benefit

Not taxable.

7.4 Benefit duration

As long as the conditions are satisfied.

7.5 Treatment of particular groups

None.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

Lone parents receive an additional allowance of Fmk 200 per child per month (see Section 6). Also a child receives maintenance support when the person liable to pay maintenance payment neglects this duty. A child is entitled to maintenance support even when the paternity has not been confirmed. The maintenance support is Fmk 637 per child per month. For others (e.g. remarried providers) it is Fmk 518 per child per month. There is no means-test.

10. Tax system

It consists of a central government tax, a local government tax, a church tax, and social security contributions.

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

The tax allowances are as follows:

Standard tax allowances for central government, local government and church taxes (for in-work earnings only):

- work related expenses of 3 per cent of earnings, with a maximum of Fmk 1 800;
- social security contributions for pension premium and unemployment insurance fee (Section 10.3).

For local government and church taxes only (for in-work earnings, unemployment benefits, and Labour Market Support) and in addition to the standard tax allowances:

- earned income deduction in local taxation (since 1997 this applies to in-work earnings only):
 - if earnings < 43 000: 20 per cent of earnings over 15 000, with a maximum of 5 500;
 - if earnings > 43 000: positive difference between 5 500 and 2 per cent of earnings over 80 000;
- standard deduction (SD):

$SD = 8\,800 - 0.2 \cdot (I - OD - 8\,800)$, where

I = income liable to taxation before deductions

OD = other deductions in local and church taxation

if $(I - OD) < 8\,800$ then $SD = I - OD$

SD must be positive

10.1.2 The definition of taxable income

The gross earnings minus the tax allowances.

10.1.3 *The 1997 tax schedule*

- Central government tax:

Taxable income (Fmk)	Tax on lower limit (Fmk)	Marginal tax rate (%)
0 – 45 000	0	0
45 001 – 61 000	50	6
61 001 – 76 000	1 010	16
76 001 – 108 000	3 410	20
108 001 – 170 000	9 810	26
170 001 – 300 000	25 930	32
300 001 +	67 530	38

- Local government tax: the average tax rate is 17.43 per cent of taxable income.
- Church tax: the average tax rate is 1.28 per cent of taxable income; about 87 per cent of the population are members of the State churches, so pay this tax.

10.2 *Treatment of family income*

Spouses are taxed separately.

10.3 *Social security contribution schedule*

Based on gross earnings, and tax deductible:

- pension premium: 4.5 per cent;
- unemployment fee: 1.5 per cent;

Based on local government taxable income (and not tax deductible):

- sickness insurance: 1.9 per cent under Fmk 80 000, 2.35 per cent over Fmk 80 000.

11. **Part-time work**

11.1 *Special benefit rules for part-time work*

See 2.2.2.

Children younger than 3 give entitlement to Home Care Allowance if the parent is working less than 30 hours per week. The allowance amounts to Fmk 375 per month.

11.2 *Special tax and social security contribution rules for part-time work*

None.

12. **Policy developments**

12.1 *Policy changes introduced in the last year*

See 12.2.

12.2 *Policy changes announced*

The combined reform of housing allowance and social assistance was introduced during 1998. The means-testing of housing allowances was reduced. At the same time the social assistance recipients will be expected to cover 7 per cent of their housing costs.

Concerning unemployment benefits, the daily basic allowance and Labour Market Support were increased to 120 Fmk/day in 1998. This does not affect the earnings related benefits. Starting in 1998, the basic allowance and Labour Market Support will be adjusted according to changes in the cost of living index.

In 1998 there are also foreseen cuts in sickness insurance contributions.

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The annual tax/benefit position of an unemployed single person, 1997 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		30 444	
Non-means tested benefits			
Unemployment insurance	71 478		
Total taxable benefits	71 478	30 444	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	71 478	30 444	
State income tax	2 686	0	
Local income tax allowance	0	4 471	
Local taxable income	71 478	25 973	
Local and church taxes	13 374	4 860	
Social security contributions	1 358	493	
Total income tax and social security contributions	17 418	5 353	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	13 737	34 904
Housing benefits	0	13 548	17 472
Non-means tested benefits			
Total non-taxable benefits	0	27 285	52 376
D. Net income out of work (A-B+C)	54 060	52 376	52 376
E. Net income in work	89 904	89 904	89 904
F. Net replacement rate (D/E) (per cent)	60	58	58

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The annual tax/benefit position of an unemployed married couple with two children, 1997 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		34 056	
Non-means tested benefits			
Unemployment insurance	75 090		
Total taxable benefits	75 090	34 056	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	75 090	34 056	
State income tax	3 264	0	
Local income tax allowance	0	3 749	
Local taxable income	75 090	30 307	
Local and church taxes	14 049	5 670	
Social security contributions	1 427	576	
Total income tax and social security contributions	18 740	6 246	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	37 723	65 533
Housing benefits	16 636	21 528	21 528
Non-means tested benefits			
Family benefits	14 304	14 304	14 304
Total non-taxable benefits	30 940	73 555	101 365
D. Net income out of work (A-B+C)	87 290	101 365	101 365
E. Net income in work	104 208	104 208	104 208
F. Net replacement rate (D/E) (per cent)	84	97	97

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The annual tax/benefit position of an unemployed lone parent with two children, 1997 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		34 056	
Non-means tested benefits			
Unemployment insurance	75 090		
Total taxable benefits	75 090	34 056	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	75 090	34 056	
State income tax	3 264	0	
Local income tax allowance	0	3 749	
Local taxable income	75 090	30 307	
Local and church taxes	14 049	5 670	
Social security contributions	1 427	576	
Total income tax and social security contributions	18 740	6 246	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	658	28 468
Housing benefits	14 352	21 528	21 528
Non-means tested benefits			
Family benefits	34 392	34 392	34 392
Total non-taxable benefits	48 744	56 578	84 388
D. Net income out of work (A-B+C)	105 094	84 388	84 388
E. Net income in work	124 296	124 296	124 296
F. Net replacement rate (D/E) (per cent)	85	68	68