



Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of the EU Member States' minimum income schemes

Country Fiche – Finland

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Directorate-General for Employment, Social Affairs and Inclusion

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Summary

The interpretation of adequacy depends on whether we look at the level of a single benefit or the level of the combined minimum income basket. Furthermore, family type and life situation have an impact on the results. When the total income basket consisting of different forms of minimum benefits is taken into consideration, the Finnish levels of minimum income protection are either in the middle or close to the top among EU Member States. According to Eurostat, Finnish income transfers effectively reduce the risk of poverty and, consequently, poverty rates in Finland are among the lowest in the EU.

The receipt of different forms of MI security benefits in Finland is more parallel than sequential (i.e. benefits are often paid on top of one another, and complement one another). This is the case with the labour market subsidy (LMS), housing allowance, and social assistance. These three forms of basic/minimum security benefits are strongly intertwined. For example, 62% of the persons receiving minimum unemployment benefits received housing allowance, social assistance or both of them, in addition to the unemployment benefit.

In principle, all recipients of MI benefits are entitled to all social care, healthcare, rehabilitation, employment, and educational services. Whereas for housing allowance there are no requirements to participate in activation or any other labour market measures, there are some requirements as regards the LMS and social assistance.

The following sections, first, outline the features of the MI support in place; secondly, describe the eligibility criteria and coverage and consider the adequacy of the financial support provided and the links with other benefits; thirdly, examine the extent of integration with labour market measures to help those supported into employment; fourthly, consider the access provided for the people concerned to social services; fifthly, summarise the governance mechanisms in place; and, finally, review the evidence on the impact on reducing poverty and assisting beneficiaries to find work.

An annex outlines the underlying situation in terms of the relative number of people at risk of poverty or social exclusion and the changes that have occurred over recent years, as well as the characteristics of the people concerned – their gender, age, employment status, education level, country of birth and the structure of the households in which they live. As such, it provides the context in which MI support is operating and indicates the groups on which support needs to be targeted.

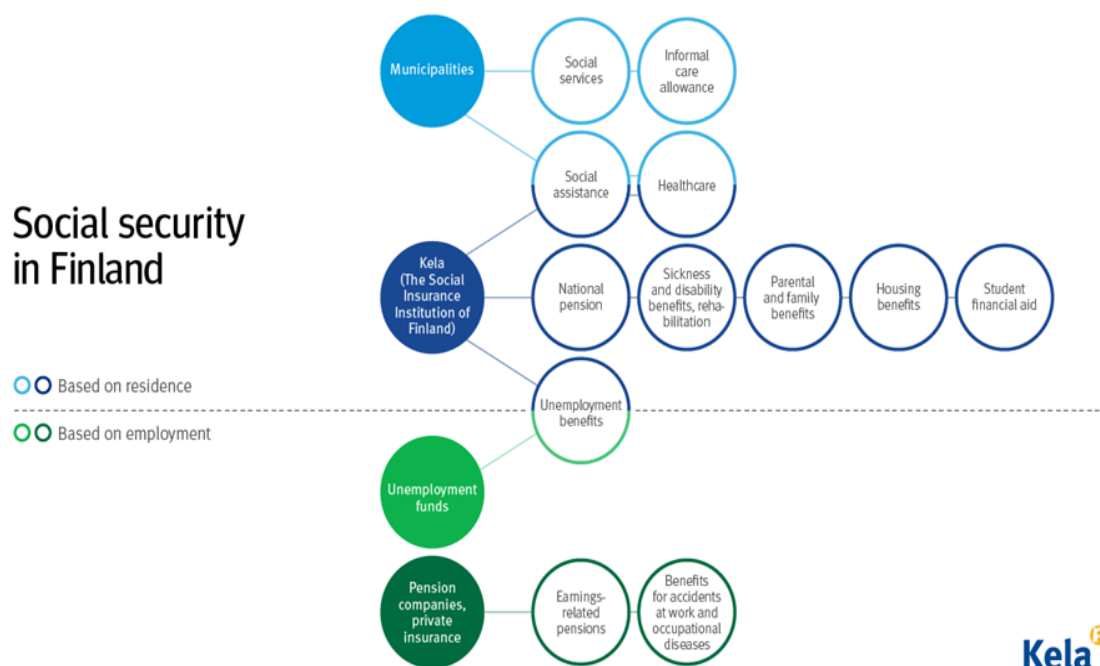
1 Description of national schemes providing minimum income support

Finnish social security consists of three parts. The first part universally guarantees minimum income (MI) security for all legal Finnish residents (rather than citizens)¹. It includes 'basic level' income transfer benefits² paid either at a flat rate or after means-testing based on personal or household income. The second part consists of income-related social insurance for those in employment. The third part of the system includes municipal social care and healthcare services that universally cover all legal residents (see Figure 1; Kela, 2021a).

¹ Asylum-seekers are not entitled to social security in Finland. However, they have the right to reception services which safeguard their necessary financial support and care. The right to get services continues through the processing of the asylum application. The reception centre pays a reception allowance until the asylum application has been processed. In 2021, the amount of the monthly reception allowance (if they were not entitled to food in the reception centre) was €267 for people over 18, €316 for single parents, and €202 for children.

² For example, minimum sickness allowance, minimum unemployment benefits, maternity benefits, housing allowance and social assistance (income support).

Figure 1. The structure of the Finnish social security system.



The payment of different forms of MI security – such as the labour market subsidy (LMS), housing allowance and social assistance – is rather parallel than sequential: that is, benefits are often paid on top of one another, and complement one another (THL, 2019; Kangas & Simanainen, 2021). This is the case with the LMS (Kela, 2021b), housing allowance (Kela, 2021c), and social assistance (Kela, 2021d). Because of the intertwining nature of these three forms of basic/minimum security benefits, all of them are described and discussed in the subsequent sections of the report.

Labour market subsidy

The LMS (*työmarkkinatuki*) is payable to unemployed people residing in Finland aged 17-64. Special activity-related and age-specific requirements must be met in order for people to benefit. The LMS is based on the Act on the Labour Market Subsidy (*Laki työmarkkinatuesta*) 1542/1993 and on the Act on Unemployment Protection (*Työttömyysturvalaki*) 1290/2002. The LMS targets those who are unemployed and enter the labour market for the first time or who have not worked long enough: that is, those who do not meet the work requirement (employment of 26 weeks during the 28 months before unemployment), or those whose earnings-related unemployment allowance has expired because the maximum number of days has been used up (Kela, 2021b; Kangas & Simanainen, 2021). The LMS does not have a maximum benefit duration, and can be paid to long-term unemployed persons.

In 2020, there were 304,559 recipients of the LMS (192 865 at the end of the year), and expenditure on the scheme was €1,866,271,058 (Kelasto, 2021a).

Housing benefits (*asumistuki*) are administered and paid out by the Social Insurance Institution of Finland (Kela) (Kela, 2021c), which supports housing in different ways: there is a general housing allowance system (including for students), a pensioners' housing system, housing assistance for conscripts, student housing supplements, and a substantial amount of social assistance. All housing benefits are based on national legislation – general housing assistance under Act 538/2014; pensioners' housing allowance under Act 571/2007; and housing assistance for conscripts under Act

781/1993. All low-income households are universally eligible for general housing allowances to help with their housing costs. The housing allowance is granted to the household as a whole. Housing allowances are available for owner-occupied homes, rented homes, right-of-occupancy homes, and part-ownership homes (Kela, 2021c). However, vast majority is granted to rented homes. The maximum coverage of accepted housing costs is 80%. On average, the coverage is about 50%.

At the end of the December 2020, there were 402,559 households and 859,212 people (16% of the Finnish population) getting general housing allowance. The expenditure on it in December 2020 was €134,578,666, and for the whole of 2020 it was €1,566,478,510 (Kelasto, 2021b). For most recipients the allowance is temporary and the average length of payment is 20 months.

Social assistance (*toimeentulotuki*) is a last-resort income transfer scheme that supports individuals and families whose income and assets do not cover their essential daily expenses. Social assistance comprises three parts (Act on Social Assistance, 1412/1997). First, basic social assistance (*perustoimeentulotuki*) is paid by Kela. Second, supplementary social assistance (*täydentävä toimeentulotuki*) is paid to cover certain additional costs. Third, preventive social assistance (*ehkäisevä toimeentulotuki*). The supplementary and preventive components of social assistance are administered and paid out by municipalities.

Social assistance as a whole is the last-resort benefit to which the right is determined on the basis of an assessment of the individual situation of the person and the family. The amount of the support is determined by assessing the difference between income and expenditure, and it is thus also different for different individuals and families in different months.

In certain situations, social assistance can also be partly paid directly to cover the necessary living expenses of a person or family.

In 2020, the total number of recipient households was 310,884 (9.9% of all households) and the number of recipient individuals was 464,236 (8.4% of residents). 96% of these received the basic amount, 2% received supplementary assistance, and 1% received preventive social assistance. Total expenditure on social assistance was €791,499,000. 96% of the spending was on basic social assistance (THL, 2021).

Important changes

In 2017, basic social assistance was transferred from the municipalities to Kela. This reduced non-take-up rates by harmonising the application process and making it more formal and less stigmatising (Hytönen, 2020). In 2018, the centre-right government introduced the 'activation model'. Benefits for unemployed people were cut if they did not show enough activity in terms of employment or participation in labour market measures. In 2019, the succeeding centre-left government abolished the activation model (Kangas & Kallioma-Puha, 2019a).

Due to COVID-19, a temporary LMS for the self-employed was introduced. The change was effective from 16 March 2020 to the end of 2020 (Kangas, 2020). Reductions in social assistance benefits due to non-compliance (e.g. people refusing to accept a work offer or not participating in labour market measures) were not strictly applied. Temporary additional compensation (€75 per month per household member) towards basic social assistance was introduced, from 1 March 2020 to the end of 2020. The pandemic did not cause any changes in the housing allowance system (Kangas, 2020).

Multiple reforms that affect minimum income benefit receivers are being prepared or implemented in Finland right now. Changes due to these are not taken into account in this fiche.

The Nordic labour market service model that reforms services and obligations of the unemployed entered into force on 2 May 2022. Healthcare and social welfare services

will be reformed in Finland from 2023 on. The responsibility for organising these services will be transferred from municipalities to wellbeing services counties.

Parliamentary committee work to reform social security as a whole has been launched in Finland 2020 and it will continue its work until 2027. It addresses questions related to basic social security, earnings-based benefits and social assistance, and examines the financing and connections between these forms of support.

A government proposal for the reform of the Act on Social assistance is to be submitted this spring. The aim of the reform is to improve the status of social welfare and vulnerable clients as social assistance applicants and to improve their access to services. The proposed amendments to the Act on Social assistance are intended to enter into force at the beginning of 2023.

1.1 Eligibility

Frequency of update

The recipients of the LMS and basic social assistance report their status every month. As a rule, social assistance is granted for one month, but it can also be granted for a shorter or longer period. Housing allowances are granted for one year. However, recipients have to immediately report to Kela any significant changes in their living situations (e.g. income or household composition).

Income/assets taken into account

The income test for the LMS takes into account a person's own income from employment. Capital and other income are taken into account separately from income from employment. However, LMS receivers rarely have capital income. Income from employment below €300 is not taken into account in LMS. Income above this threshold reduces the benefit by rate of 50%. On the other hand, in the case of capital or other income (for example other social benefits), for single people, the LMS is reduced by income that exceeds the threshold of €311 per month. The reduction is 75% of the full amount of the LMS. Parents' income also affect LMS for those living in their parents' household. Usually LMS is reduced by 50 % for a person living in their parents' apartment.

For housing allowance, income covers wages and salaries, income from self-employment, capital income, and most social transfers (e.g. unemployment and sickness benefits, and child homecare allowance). The amount of housing allowance depends on the composition of the household, municipality, and monthly gross income. A deduction of €300 is made from each household member's income. Income above the €300 reduces the allowance by rate of 42 %. There is a statutory maximum limit on acceptable housing costs, which varies between municipalities.

In the case of social assistance, the income taken into account is defined as disposable income (after tax). Earned income exceeding €150 per month reduces benefits. In principle, all other social benefits (such as the LMS) reduce social assistance. Real property and assets owned by a person belonging to the household are taken into account

Exempt income/assets

For the LMS, the following income is not taken into account: child allowance, family pension, child homecare allowances, housing allowance, disability indemnity, conscript allowance, and social assistance.

For the housing allowance, a deduction of €300 is made from each household member's income (i.e. €300 of this is exempt).

For social assistance, reduction of privileged income from earned income max. EUR 150, wages and benefits deemed insignificant (€50 for a single person and €100 for a household per month) are exempted. Also exempt are: regular income and assets of a

child under 18 insofar as they exceed the expenses to be taken into account for the child's part; reimbursement of travel-to-work and other work-related costs; activation supplements; certain social benefits (maternity benefits and disability allowances); and assets regarded as essential for living (e.g. owning a house or flat). These do not affect benefits (Kela, 2021d).

How the criteria for assessment were chosen

The criteria used for assessment are the result of a long historical political process, and it is therefore difficult to provide a more detailed description of how and why the specific criteria concerned were chosen (Kuivalainen, 2013). As a result, there is a constant debate about how to safeguard adequate benefits without creating excessive work disincentives.

Assessment: concerns

There are complaints that the co-ordination between Kela (which grants basic social assistance) and municipalities (responsible for additional and preventive social assistance) does not work well enough; and that vulnerable clients often cannot cope with the bureaucracy and fall between different agencies (National Audit Office of Finland, 2020a; Järvinen, 2021). One specific concern is the rather high rejection rate (48.2% in 2021) for social assistance. Another concern is the weak connection between benefits in cash and benefits in kind (Hytönen, 2018; see also Ilmakunnas, 2017 and 2019).

Proof of eligibility

As an unemployment benefit, LMS can only be received by unemployed persons available for and seeking for full time job. In order to receive the LMS, a labour market statement issued by employment services must prove that an applicant his/her individual employment plan as an unemployed job seeker. The LMS is income-tested; therefore, most recipients are in the lowest income deciles. There are no exact numbers on non-take-up rates available, but rates are probably quite low. In 2020, rejection rate³ was 13.3% (from direct correspondence with Vesa Ylönen, chef of the statistics in Kela). The main reasons are non-attendance at periodic interviews (about 60%) or a failure to follow the employment plan (40%) (Halmetoja & Korpela, 2020). Unemployed people may lose access to the LMS if they refuse to work, participate in activation, or interrupt their studies (Haapakoski, 2021; Raittila *et al.*, 2018); in these cases they are in many cases entitled to last-resort social assistance. Young unemployed under 25 years of age without vocational education have additional obligations. They need to apply to studies in order to be eligible for LMS.

1.2 Coverage

The strength of the Finnish basic security system is that it covers all residents and is rather comprehensive. There are no upper limits on the duration of the LMS. Furthermore, social assistance, though means-tested, is based on strong claim rights guaranteed by the constitution. The level of benefits can be reduced by a maximum of 40%, but the rest is a kind of basic income for the claimant. The housing allowance system and social assistance system, together with the 'housing first' national policy, has contributed to a very low number of homeless people in Finland (Kangas & Kalliomaa-Puha, 2019b). The problem is that the levels of individual benefits are rather low, and the MI bundle often consists of a number of income-tested benefits paid on top of one another, which creates high effective marginal tax rates (Haapakoski, 2021; Kangas & Simanainen, 2021, pp 13-15).

LMS is payable to unemployed people residing in Finland aged 17-64. There are special activity-related and age-specific requirements for younger unemployed people

³ By definition, people whose application is rejected are not 'non-takers'.

(Kela, 2021b; Kangas & Simanainen, 2021). In December 2020, 44% of the recipients of unemployment benefits received the LMS (the rest received income-related daily allowances⁴ or other unemployment-related benefits). It is not possible to provide exact take-up or non-take-up rates. In 2020, the rejection rate for the Kela-administered unemployment benefits was 23%. In the case of younger unemployed people, the LMS may be refused if the claimant is not participating in education or in any labour market measures. As a rule, recipients of the LMS are low-income people. In 2019, about 60% of the recipients were in the two lowest income deciles (Statistics Finland, 2021a). A review of status is conducted on a monthly basis.

Housing benefits are universally available to low-income households to assist with their housing costs (Kela, 2021c). About 16% of the Finnish population gets housing allowances. Thus, not all the recipients of housing allowance are on MI support. However, a majority (60%) of the recipients receiving general housing allowance are in the two lowest income deciles⁵ (Statistics Finland, 2021a).

Eligibility for the housing allowance is based on formal rules, and there is no discretion. Benefit decisions are for one year. The main reason for the rejection of applications (27% in 2020) is excessive income. In 2021, the upper monthly income limits for different households in the most expensive municipality (Helsinki) were as follows: €1,901 for a single person; €3,395 for a single parent with two children; €2,556 for a couple without children; and €3,880 for a couple with two children. The corresponding income limits in the cheapest municipality category were €1,502, €2,673, €1,985, and €3,073 (Kela, 2021c; see also Section 1.3).

One way of trying to estimate the extent of the non-take-up of housing allowance is to compare total (actual) spending with simulated spending, as done in Honkanen (2020: p. 40). The comparison of the actual and simulated 'would-be' expenditures acts as a proxy for the non-take-up rate, of 14%. In her analysis of take-up rates, Paukkeri (2018: p. 30) provided similar figures (the take-up rate she calculated was 85%).

Whereas the receipt of housing benefits is based on formal regulations, **social assistance** procedures contain discretion and stronger means-testing. However, there are still elements of strong claims rights. As a last-resort benefit, eligibility for social assistance cannot be denied, for example, due to refusal to work. The benefit can be reduced by a maximum of 40% for a certain period, but it cannot be totally denied (Moisio, 2021). Social assistance for individuals is reviewed every month.

An important reform took place in 2017, when basic social assistance was centralised, from the municipalities into Kela. The aim was to diminish the high non-take-up rates (estimated to vary between 30% and 70%; Kuivalainen, 2013). To some extent, formalising the application process and rules for eligibility has produced the desired results, but the rejection rate of applications is still high (50% in 2020). It is impossible to obtain exact numbers for non-take-up rates. However, the transfer of basic social assistance from municipalities to Kela seems to have reduced the non-take-up rates. A rough estimate is about 30% (Tervola, 2021).

In 2019, 68% of the recipients of social assistance were in the two lowest income deciles.

1.3 Adequacy

In recent years, the European Committee of Social Rights has recommended that Finland improve the adequacy of its MI protection (Tervola *et al.*, 2019). The adequacy

⁴ In order to be entitled to income-related benefits, unemployed people must have been insured by a voluntary unemployment fund [*työttömyyskassa*] for 26 weeks before becoming unemployed. Whereas the funds are responsible for paying out the income-related benefits, Kela pays out the minimum benefits.

⁵ In 2019, the gross annual mean household income for those getting the benefit was €14,395 in the 1st income decile and €24,779 in the 2nd decile (Statistics Finland, 2021a).

of MI protection in Finland depends on whether we look at the level of a single benefit or the level of the combined MI basket. Furthermore, family type and life situation have an impact on the results. When these aspects are taken into consideration, the Finnish adequacy levels are either in the middle or close to the top among the EU Member States (Ilmakunnas & Moisio, 2018 and 2019).

The monthly amount of the **LMS** is €726 for a single person. The benefit is increased if the claimant cares for children under 18. The increases (per day) are €5.30 for one child, €7.78 for two children, and €10.03 for three or more children. While participation in the active labour market measures or other forms of activation, an increase of €4.80 per day for 200 days will be paid (Kela, 2021b). The LMS is taxable income.

With regard to the level and adequacy of **housing allowance**, it is impossible to provide exhaustive answers. The amount depends on the composition of the household, household income, the form and level of housing costs, and the municipality of residence. There are four groups of municipalities ranked according to housing costs⁶. In each municipality group, there are ceilings for accepted housing costs to be taken into consideration when calculating the size of the allowance. In 2020, the maximum compensation paid was 80% of the accepted housing costs. On average, compensation was 50% (Kela, 2021c). If housing costs exceed the maximum limit, the claimants can seek compensation from social assistance if they are eligible for social assistance. Housing costs are often fully covered by social assistance (Moisio, 2021). Thus, social assistance is de facto an additional form of housing subsidy. Housing allowance is not taxable income.

The basic amount of **social assistance** is €504 per month for a single person and €932 for a co-habiting couple. The basic amounts for children under 10 are €318 for the first child, €292 for the second child, and €267 for each consecutive child. The corresponding amounts for children aged 10-17 are €353, €328, and €302 (Kela, 2021d). However, as social assistance is a last resort benefit, these are not the amounts of social assistance in practice. The amount is calculated for each household according to income and expenses. If the recognised expenses are higher than the income, the difference between the expenses and income is paid to the applicant as social assistance. Average monthly amount of basic social assistance per person in 2020 was EUR 367. Social assistance is not taxable income.

Regarding supplementary and preventive social assistance, they are always case-sensitive, and the benefit amounts vary according to the needs of the client.

The levels of MI benefits follow the consumer price index, mostly through their link to the national pension index. In addition to increases due to index changes, the government can decide on ad hoc increases. In principle, the national pension index is updated every year. However, indexation freezes or cuts have sometimes (e.g. 2017-2019) been used as a means of reducing public spending, which has affected MI transfers in particular (Honkanen, 2021).

Table 1 gives an example of the composition of the MI package in the case of an unemployed LMS recipient. Especially in larger cities, rents are often much higher than in these examples. Therefore, a household would usually receive social assistance to cover its housing costs in addition to the housing allowance.

⁶ The first group consists of the most expensive municipalities (Helsinki), and the fourth consists of the cheapest (rural) municipalities. If actual housing costs exceed the maximum limit, the allowance is calculated on the maximum housing costs. The maximum housing costs in Helsinki are as follows: one-person household, €521 per month; two people, €757; three people, €960; four people, €1,122; plus €144 for each additional household member. In the cheapest municipality category, the amounts are €353, €514, €657, €783 and €115, respectively.

Table 1. The composition of the minimum income package (€ per month) of an unemployed person getting labour market subsidy in Finland 2020/2021⁷.

Components in the MI package	Type of household				
	Single	Single + 2 children ¹	Couple	Couple + 2 children ¹	Couple + 4 children ²
Housing costs	400	741	584	878	1,118
Labour market subsidy	726	894	1,453	1,787	1,884
Minus tax	-31	-73	-216	-258	-271
Child allowance	0	326	0	200	497
Housing allowance	320	593	250	523	833
Social assistance	0	186	0	93	247
Net MI	1,015	1,926	1,487	2,345	3,190
Poverty thresholds (€ per month; 2020 data)					
60%	1,278	2,044	1,917	2,683	3,450
50%	1,065	1,704	1,598	2,236	2,875
40%	852	1,383	1,278	1,789	2,300
¹ Both children are under 10.					
² Two children are aged 10-17, and two are under 10.					
<i>Benefit calculations are based on the SISU micro-simulation model (Pertti Honkanen, 2021); Poverty thresholds: Statistics Finland 2021b.</i>					

The adequacy of the LMS or basic social assistance can be evaluated by reference to the 60%, 50%, or 40% poverty thresholds, or to the monetary value of the minimum consumption basket (for example, Kangas *et al.*, 2013; Niemelä & Raijas, 2013; Mäkinen, 2018 and 2021).

In 2019, the LMS for a single person (€724) was 57% of the 60% poverty threshold for a single person (€1,280; Statistics Finland, 2020). The corresponding shares for the 50% and 40% poverty thresholds were 68% and 85%. For the basic amount of social assistance, the shares were much lower (39%, 47%, and 59%, respectively). The total net MI is roughly the same as the 50% poverty threshold and higher than the 40% poverty threshold.

Minimum benefits can also be assessed by comparing them with the monetary value of the minimum consumption budget, which was €1,170 per month for a single person in 2021 (Lehtinen, 2021: p.23; see also Ilmakunnas & Mäkinen, 2021; Mäkinen, 2018 and 2021). As Table 1 indicates, whereas the value of the total net MI basket is approximately 80-90% of the value of the minimum consumption basket, the values of the LMS and basic amount of social assistance are much lower (58% and 40%, respectively).

⁷ Housing costs for each type of household are taken from Lehtinen (2021); and housing allowances are calculated for the medium-size township of Jyväskylä, which represents the municipal category III.

The shares indicate that, in order to reach different poverty threshold levels or the value of the minimum consumption basket, a combination of the three basic benefits is needed. However, the combinatory approach does not work in all cases, and for various reasons the levels described in Table 1 are not reached. There may be unpaid waiting periods, there may be cuts, and benefits may be reduced. The risk of poverty is therefore still high (Statistics Finland, 2019; see also Table 2 in Section 5).

1.4 Links with other benefits

The LMS, housing allowance, and social assistance are closely intertwined. In 2020, there were 201,300 unemployed people receiving minimum unemployment benefits (the LMS or minimum unemployment allowance from Kela). 26% of these individuals were also receiving housing allowance, 3% received social assistance, and 33% simultaneously received all three benefits. Correspondingly, out of the 304,700 recipients of housing allowance, 17% received minimum unemployment benefits, 16% received social assistance, and 22% received all three benefits. Of the 146,900 recipients of social assistance, 4% also received minimum unemployment benefits, 34% were entitled to housing allowance, and as many as 46% received all three benefits (Korpela, 2021). The level of any one minimum (basic) income benefit is not sufficient to reach the value of the minimum consumption budget or different poverty thresholds (see Section 1.3).

2 Links with labour market activation

Income testing and tapering

The gross income of household members affects the amount of **housing allowance**. An earnings deduction of €300 made from every household member's wages or self-employment income brings the tapering rate to 33.6%: that is, earnings of €100 reduce the allowance by around €34 (Kangas & Simanainen, 2021: p.10). In the case of the **LMS**, there is an adjustment system for income from part-time or incidental work. Regarding 'adjusted unemployment benefits' (*soviteltu päiväraha*), employment income of up to €300 per month (the 'exempt amount') does not reduce benefits, but income greater than the exempt amount reduces the benefit by certain tapering percentages, usually 50% (Kangas & Simanainen, 2021: p.15). In the case of **social assistance**, of earned income, a maximum of EUR 150 per month is not taken into account as a privileged income, also a 'minor income' (€50 per month for a single person and €100 for a household) occasionally does not affect the level of income. In principle, the tapering percentage is 100%.

One specific problem with the Finnish MI benefit system is that a series of income-tested payments coming on top of one another leads to high effective marginal tax rates, which may create severe work disincentives.

Requirements for participation in activation and activation measures available

For housing allowance, there are no requirements to participate in any activation or other labour market measures. Although there are several requirements in the case of the LMS and social assistance, many of them are based on an individual assessment of the need for various services. The assessment attempts to map all the relevant factors (e.g. health condition and ability to work) affecting the client's situation. (As regard take-up rates, see Section 3.)

The Act on Rehabilitative Work lays down provisions on rehabilitative work activities, which are social services. According to the Act, social welfare and employment services must, in cooperation with the client, draw up an activation plan if a person under 25 years of age has received labour market support or social assistance for over 4 months or an unemployed person above that for over 12 months. The plan may include rehabilitative work activities that are binding on the client.

The multi-sectoral employment promotion service is a joint operating model of the employment and business service office (TEO), municipality, and Kela. The model serves job-seekers who have been unemployed for a long period of time. In the multi-sectoral joint service model, various public authorities offer services on a one-stop-shop basis. The service is available in the area of each TEO and in all municipalities in mainland Finland. The joint service identifies what services unemployed people need to improve their employability and find employment. The service draws up an employment plan which includes participation in public employment services, social and health services, and rehabilitation services. The TEO, municipality, or Kela, directs unemployed people to the joint service.

The Act on Multi-disciplinary Employment Services (1369/2014) stipulates that a multi-disciplinary assessment should be conducted: 1) for unemployed people under 25 who have been continuously unemployed for six months; and 2) for unemployed people over 25 who have been unemployed for 12 months. Assessment of progress is conducted every six months. Participation in services terminates when the TEO, municipality, and Kela jointly agree that the need for the services no longer exists.

Sanctions

In order to get the benefit, the claimant must register with the employment service (TE service). Special requirements are applied to younger applicants. If the unemployed person is 17 and does not have vocational qualifications, they can receive the LMS only for periods of participation in employment-promoting measures. If the claimant is 18-24 and does not have vocational qualifications, they are obliged to apply for a study place or participate in training. If the claimant does not apply for a study place or does not accept the study place offered, they may lose their entitlement to unemployment benefits. In such a case, entitlement can be restored when: the conditions in respect of vocational qualifications are met; the work requirement is fulfilled; or the claimant participates in employment-promoting services, undertakes full-time studies, or becomes 25.

Unemployed people can lose their rights to the LMS for a limited period of time if, for example, they refuse to accept suitable jobs. The length of sanctions varies from 30 to 90 days, depending on the reasons for them. The most common grounds for sanctions are non-attendance at periodic interviews and withdrawal from, or refusal to participate in, a labour market policy measure without a valid reason. Repeated violations result in a more severe sanction: for example in obligatory work, under which unemployed people are not entitled to unemployment benefit before they have been employed, participated in active labour market measures or employment-promoting services, or have studied full time for at least 90 days.

As regards the recipients of social assistance, non-compliance with, for example, the activation plan can lead to a reduction in the benefit of 20% for two months. If non-compliance continues, the benefit can be further reduced by an additional 20%, but for no longer than two months. The maximum reduction is 40%. According to international comparisons, sanctions in the Finnish social assistance system are among the most lenient in Europe (Eleveld, 2016; Penttilä & Hiilamo, 2017).

An unemployed job-seeker can make use of all the various services offered by TEOs. In co-operation with a TEO expert, an unemployed person will draw up a plan (an employment plan, activation plan, or integration plan for immigrants), highlighting the job-seeking goals and steps needed to reach those goals. The implementation of the plan is assessed at regular intervals and is individually tailored and adapted to the claimant's personal needs. However, these plans do not work as effectively as they might. In particular, the follow-ups to the implementation of the plans have been criticised as ineffective and as increasing the number of unemployed people hit by sanctions (Halmetoja & Korpela, 2020; Sundvall & Meyer, 2018).

For long-term unemployed people (as recipients of the LMS and social assistance often are), there are various rehabilitative activities available to improve their employability. Additional benefits are paid to those who partake in rehabilitative work (in the form of subsistence compensation for LMS recipients and activation benefits for those on social assistance), and they are reimbursed for travel expenses.

Experiences with activation and sanction measures vary depending on the programme and the target group. Whereas wage subsidies in the private sector have the greatest impact on the subsequent employment and earned income of the participants, wage subsidies in the public and third sectors have only negligible impact. Vocational training has long-term positive effects. As regards rehabilitative work, employment results are negligible (National Audit Office of Finland, 2020b).

Experiences of the activation model that was in effect in 2018 were mixed. The model increased financial incentives for the unemployed to accept short-term jobs or/and to participate in employment-promoting services. The evaluation showed that the model increased participation in employment services. However, the effects of the services were often short-term. The benefit reductions hit the oldest unemployed people most severely. TEO personnel regarded the activation model as an ineffective tool for raising the employment rate (Kyyrä *et al.*, 2019).

3 Links to social services and integrated provision of targeted social services

All people receiving MI benefits are entitled to the same social care and healthcare services, education, training, and rehabilitation as the rest of the population. Thus, in principle, the coverage is 100%. However, non-active people are not entitled to occupational healthcare, which is free of charge and more easily accessible than services at healthcare centres, which charge service fees and usually have longer queues for treatment. Furthermore, unmet medical needs due to costs are in Finland higher than the EU-26 average. The problem is most severe among the lowest income quintile (OECD, 2020a). The integration of income transfers and various services is not always seamless and there are municipal variations in the supply of, and access to, services (Kangas & Kalliomaa-Puha, 2020; Saikkonen & Ylikännö, 2020).

Take up-rates of services

In principle, all of the target population is covered. However, the take-up rate remains rather low.

LMS: in 2020, 116,672 of the total 431,978 LMS recipients also received some benefits related to active labour market policies⁸. Thus, the average take-up rate was 27% (Kelasto, 2021a). Among those who had received the LMS for less than 100 days, the take-up rate was about 50%; but thereafter it dropped rapidly and was 15-20% among those who had been unemployed longer than one year.

Basic social assistance: In 2020, there were 417,071 recipients of basic social assistance; Kela sent municipalities about 33,000 notifications (about 10% of all cases) on: Of these, 23,000 were applications for supplementary or preventive social assistance and the rest concerned 1) unemployed people under 25 who had received social assistance as the main source of income for longer than four months, 2) older unemployed people who had received social assistance as the main source of income for longer 12 months, 3) notifications of clients with reduced basic amount of social assistance and 4) notifications of clients in need of social services. In cases 1 and 2, the joint activation process (see Section 2) between municipality and TEO may be initiated (Kelasto, 2021b).

⁸ During participation in employment-promoting services, unemployment benefit can be paid at an increased rate for up to 200 days.

4 Governance mechanisms

Governance of minimum income schemes

The Ministry of Social Affairs and Health is responsible for legislation on social assistance, and directs and co-ordinates social assistance as part of social welfare. Kela centrally administers the LMS, housing allowance, and basic social assistance. Kela has approximately 200 offices throughout the country. The 309 municipalities take care of supplementary and preventive social assistance until the end of 2022. From the beginning of 2023, responsibility will be transferred to 22 wellbeing services counties. There are complaints that the co-ordination between different authorities is not fully satisfactory. There are information gaps and people in vulnerable positions may fall in between different institutions (e.g. National Audit Office of Finland, 2020a). The connection between benefits in cash (mainly provided by Kela) and benefits in kind (provided by municipalities) is not seamless. Furthermore, there are insufficient data on how social work and other municipal services are organised, and how the delivery of services varies between municipalities (Saikkonen & Ylikännö, 2020; see also Korpela *et al.*, 2020).

Monitoring

The Ministry of Social Affairs and Health has ultimate responsibility for co-ordination and monitoring of the existing situation, developments, future trajectories, adequacy of benefits, and impact of benefits on poverty and income distribution.

One key aspect of monitoring is the processing time for benefits. Kela and municipalities or associations of municipalities must deliver the information necessary to monitor and control the fulfilment of the Act on Social Assistance to the National Institute for Health and Welfare (THL) twice a year. The THL has an online service (SOTKANET⁹) containing detailed data on the recipients of MI benefits. The THL forwards the information to regional state administrative agencies, which guide and supervise both municipal and private social welfare services in their areas (but not Kela's activities). In some cases, the Deputy Chancellor of Justice and the Parliamentary Deputy Ombudsman have reacted against Kela's decisions on basic social assistance, and Kela has been blamed for delays and incomplete justifications for decisions.

Monitoring is the joint responsibility of the authorities participating in multi-disciplinary services. Kela has to monitor the duration of the LMS spells and the possible receipt of social assistance. The information is transferred to the municipalities and TEOs. The goal is a one-stop shop, but the seamless process does not always work as planned. There are complaints about the division of labour between Kela and municipalities, in particular with regard to unemployed people who need supplementary social assistance from the municipality.

Kela constantly monitors fraud in benefit applications. To prevent the misuse of benefits, Kela carries out continuous development work and utilises information systems and new digital tools, for example, for revealing forged documents. The national income register, which became effective in 2019, allows Kela to monitor applicants' income.

There is a legal obligation to evaluate the adequacy of basic social security at the end of each government period. In evaluating the adequacy of basic security and access to services, the output of non-governmental organisations is important; for example, the barometers provided by the Finnish Federation for Social Affairs and Health. Since 2017, the Finnish Anti-Poverty Network, EAPN-Fin, has published the *Poverty Watch*,

⁹ The Sotkanet.fi service contains over 2,000 indicators on health, welfare and functioning of the service-system at different regional categories (municipalities, healthcare districts and all levels of NUTS).

which brings together poverty-related statistics and other research data and raises issues relating to basic security (also available in English).

5 Impact of minimum income schemes

It is difficult to assess the precise relative role in poverty-reduction of MI benefits, other income transfers, and benefits. We do not have any counterfactuals to perform the evaluation. One way to overcome this problem would be to compare outcomes in different countries (i.e. different social policy systems) in terms of poverty-reduction and poverty levels at different levels of poverty thresholds. According to Eurostat (2021a and 2021), the AROP rate before income transfers in Finland was about the same level as the average for the 27 EU Member States (25.1% and 25.4%, respectively); whereas after income transfers were received, the Finnish AROP rate was lower than the EU-27 average (12.1% vs 17.1%). Consequently, the poverty-reduction rate was greater in Finland (52%) than in the EU on average (33%). Furthermore, the relative median AROP poverty gap in Finland (13.7%) was the second lowest in the EU (EU average 24.2%; Eurostat 2021c). The comparative data show that the Finnish social benefits system as a whole works comparatively well.

Table 2. Poverty risks at different poverty thresholds and poverty-alleviation effect of MI benefits among the total population and among the recipients of different MI benefits

	60%	50%	40%
	Poverty rate	Poverty rate	Poverty rate
Total population	13.6	6.9	3.7
LMS	46.9	22.1	8.5
HA	56.7	26.7	11.9
SA	64.3	29.8	12.4
LMS+HA+SA	49.0	18.5	4.9
Poverty-alleviation effect	25.1	48.0	61.6
Calculations on poverty-alleviation effects are estimated by using the SISU micro-simulation model. Poverty-alleviation (%) = (poverty after MI transfers – poverty before MI transfers) / (poverty before MI transfers) *100 (source: Honkanen, 2021).			

The downside is that there are often work disincentives, which may contribute to long-term unemployment. However, the main problem is elsewhere. As the OECD (2020b) publication *Faces of Joblessness Finland* shows, 70% of the Finnish population lacking stable employment face multiple employment barriers, and 40% face three barriers or more. The activation measures are therefore not always as effective as wished for. The OECD recommendation was for more targeted measures that are better tailored to meet the needs of people facing several barriers.

Similar conclusions were drawn from the Finnish basic income experiment, which ran during 2017-2018 (Ylikännö & Kangas, 2021). When health problems form a barrier to employment, the conditionality of a social benefit is not a relevant issue. To enhance re-employment possibilities and further activation of citizens, services are needed. In Finland, the TEOs offer services to unemployed job-seekers, as well as municipal health and social services, and education services. The emphasis in these services is on the transition towards more intensified multi-disciplinary work in a customer-oriented manner. Decent economic security is necessary, but is not a sufficient condition for re-employment. Income transfers must be accompanied by a wide array

of services to improve the employability of those who have multiple barriers to employment (Saikkonen & Ylikännö, 2020).

In order to improve the efficacy of the activation measures, more detailed data on the participation rates and effectiveness of the measures are needed.

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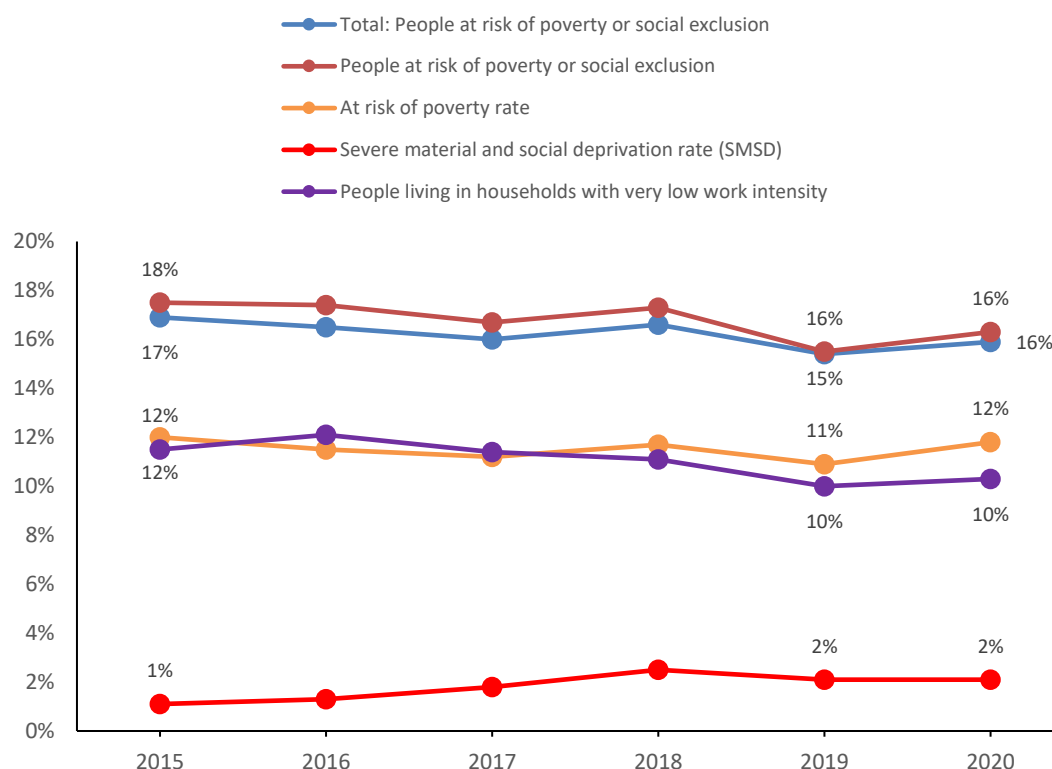
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7 Annex

Figure 2. AROPE indicator and components, Finland, 2015-2020 (%)

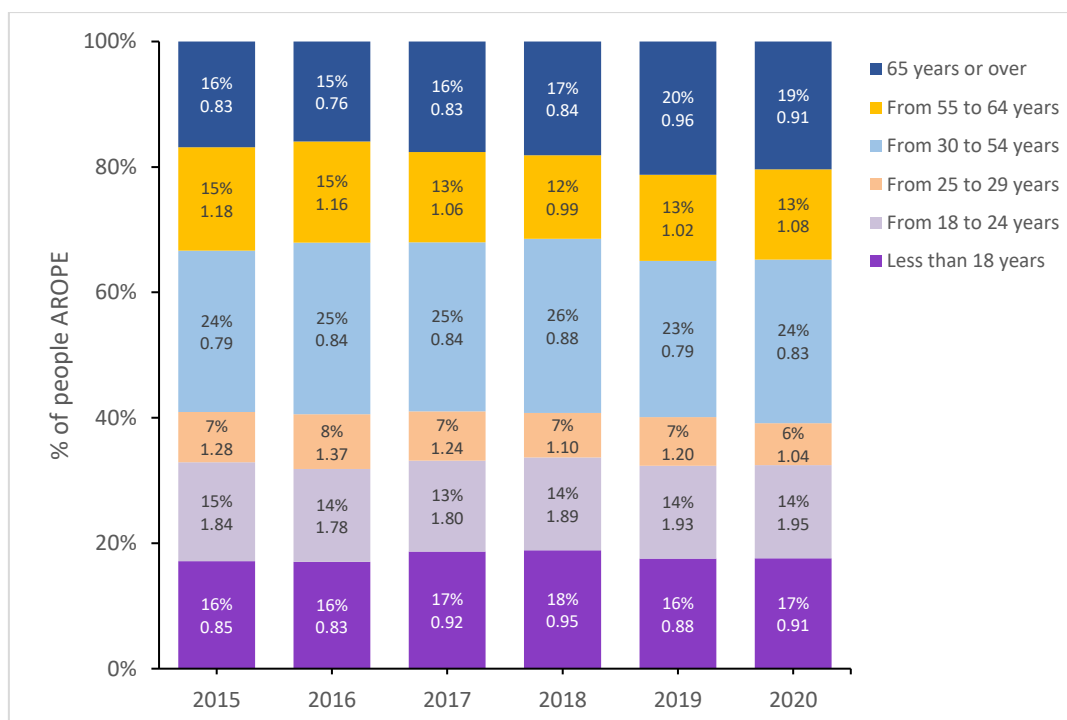


Note: The line for "Total: People at risk of poverty or social exclusion" indicates the trend for overall population, while the other lines show the figures for individuals aged 0-64.

Source: Eurostat EU-SILC indicators [ilc_peps01n], [ilc_li02], [ilc_mdsc11] and [ilc_lvh11n]. Data downloaded on 14/02/2022.

- In 2020, the share of total population at risk of poverty or social exclusion (AROPE) in Finland stood at 15.9%, while that of those aged 0-64 was higher at 16.3%, reflecting the relatively low risk among those of 65 and older. Over the period 2015-2020, there was a slight decline in the share of those aged 0-64, while that of those aged 65 and over remained broadly unchanged.
- Most of the people at risk of poverty or social exclusion, 11.8 % of those aged 0-64, had household disposable income of below 60% of the median in 2020 (I.e. they were at risk of poverty). This proportion remained much the same over the 2015-2020 period.
- Most of those at risk of poverty or social exclusion (63%) also lived in households with very low work intensity, 10.3% of those aged 0-64, the proportion falling slightly along with the AROPE rate over the 2015-2020 period.
- Just 13% of those at risk of poverty and social exclusion in 2020 were affected by severe material and social deprivation, only 2.1% of those aged 0-64, though this proportion increased a little between 2015 and 2020.

Figure 3. Division of people aged 0-64 at risk of poverty or social exclusion by age group, Finland, 2015-2020 (%)

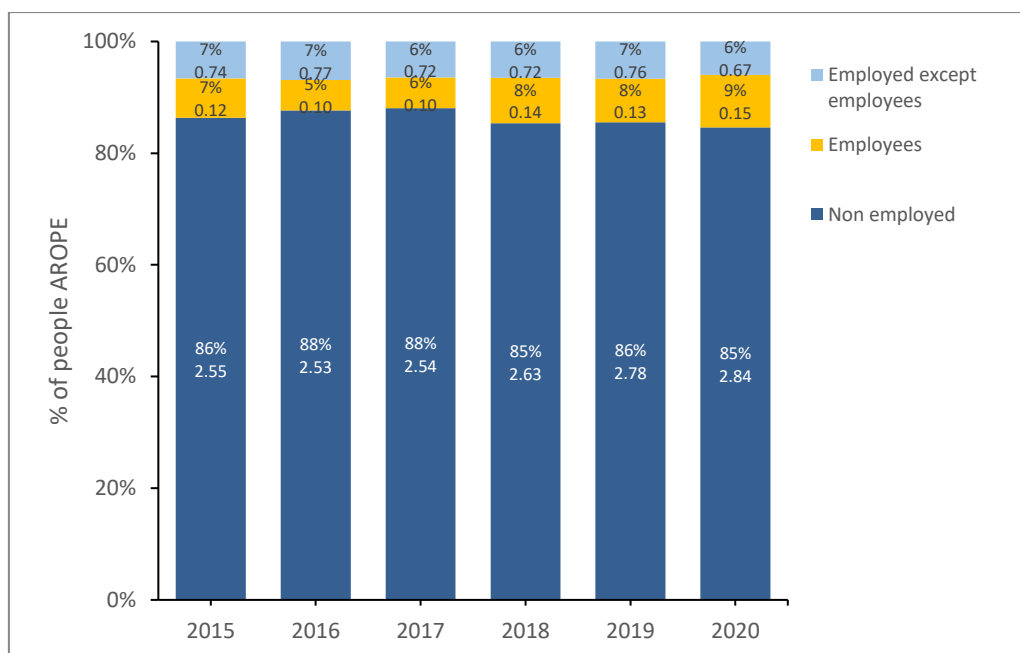


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps01n], own calculation. Data downloaded on 14/02/2022.

- More men than women aged 0-64 were at risk of poverty or social exclusion in 2020 (53% of the total). There were also more men than women in the population of this age, though the difference was smaller, implying that men were more likely than women to be at risk, which was also the case throughout the preceding 5 years.
- As implied in Figure 1, older people aged 65 and over are less likely to be at risk of poverty or social exclusion than those younger, these accounting for 19% of the total at risk in 2020.
- Children under 18 are also less likely to be at risk of poverty or social exclusion than average adults in average, these making up 18% of the total at risk in 2020, marginally less than those aged 65 and over.
- By contrast, young people aged 18-24 are considerably more likely than average to be at risk, their share of the total at risk amounting to 14% in 2020, much more than their share of population

Figure 4. *Division of people aged 18-64 at risk of poverty or social exclusion by most frequent economic activity status, Finland, 2015-2020 (%)*

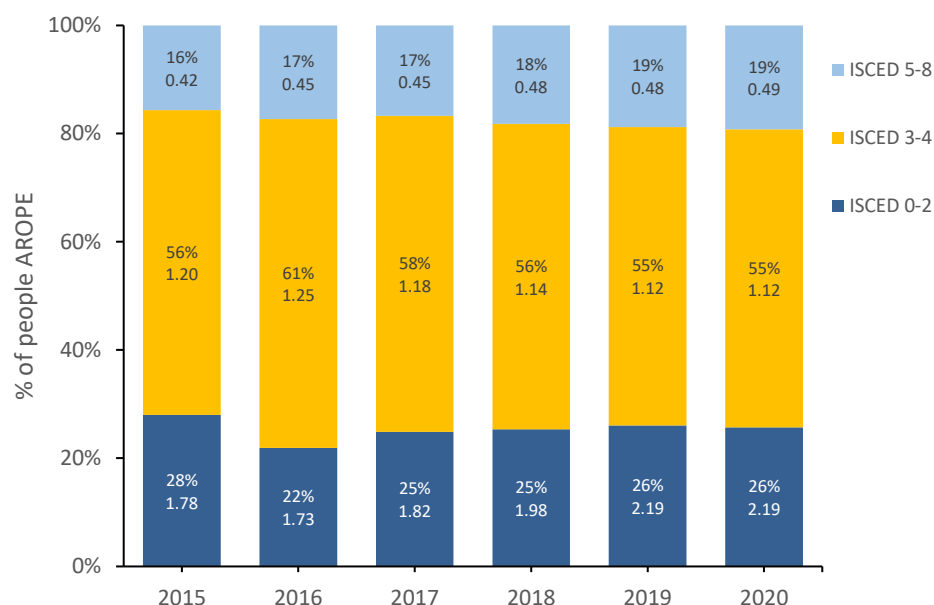


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps02n] and [ilc_lvhl02], own calculation. Data downloaded on 14/02/2022.

- People of working age (18-64) not in work are considerably more likely to be at risk of poverty or social exclusion than those in employment, the likelihood increasing over the period 2015-2020. In 2020, they made up 85% of the total at risk.
- Among those in employment, the self-employed, together with few family workers, are far more likely than employees to be at risk, though because of their small numbers, they made up only 6% of the total at risk in 2020.

Figure 5. *Division of people aged 18-64 at risk of poverty or social exclusion by education level, Finland, 2015-2020 (%)*

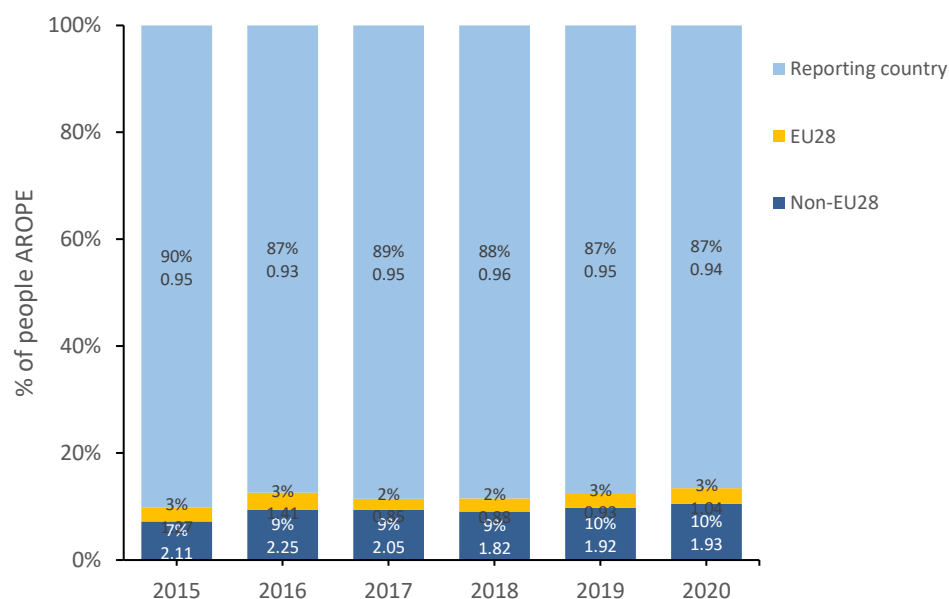


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps04n] and [ilc_lvps04], own calculation. Data downloaded on 14/02/2022.

- People aged 18-64 with only basic schooling (ISCED 0-2) are substantially more likely to be at risk of poverty or social exclusion than those with higher education levels, the likelihood tending to increase over the period 2015-2020. Because of their relatively small numbers, however, they made up only just over a quarter of the total at risk in 2020.
- By contrast, those in this age group with tertiary education (ISCED 5-8), were far less likely to be at risk than others, though they still made up 19% of the total at risk in 2020.

Figure 6. *Division of people aged 18-64 at risk of poverty or social exclusion by country of birth, Finland, 2015-2020 (%)*

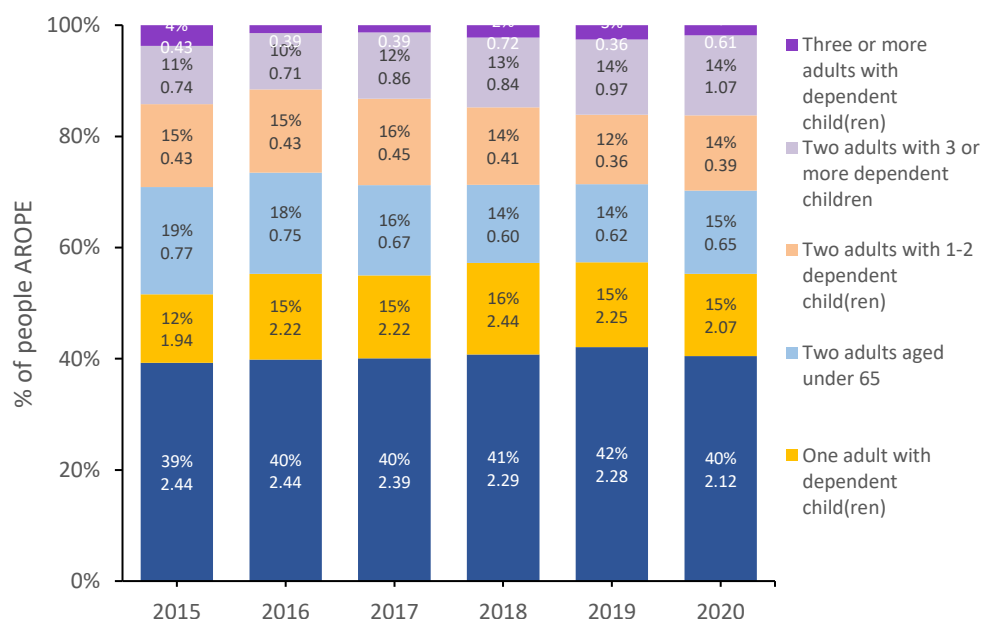


Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Source: Eurostat EU-SILC indicators [ilc_peps06n] (Data downloaded on 14/02/2022) and EU-SILC microdata, own calculation.

- People aged 18-64 born outside the EU are far more likely to be at risk of poverty or social exclusion than those born in Finland, though because of their relatively small numbers, they made up only 10% of the total at risk in 2020.
- Those in this age group born in another EU country were also more likely to be at risk than those born in Finland, but only slightly so and their small numbers mean that they made up just 3% of the total at risk in 2020.

Figure 7. Division of people at risk of poverty or social exclusion by household type, Finland, 2015-2020 (%)



Note: Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.

Note that the chart does not include all household types. In particular, it excludes those aged under 65 living in a household with three or more adults without children, who are difficult to distinguish in the published data.

Source: Eurostat EU-SILC indicators [ilc_peps03n] and [ilc_lvps02], own calculation. Data downloaded on 14/02/2022.

- People aged under 65 living alone are considerably more likely to be at risk of poverty or social exclusion than others, though the likelihood declined over the period 2015-2020, they still made up 40% of the total at risk in 2020.
- People living alone with children were just as likely to be at risk, these making up 15% of the total at risk in 2020
- Couples with 1-2 children are less likely to be at risk than those aged under 65 without children, both being far less likely than average to be at risk of poverty or social exclusion.
- Couples with 3 or more children, however, were slightly more likely to be at risk than average, the likelihood increasing significantly over the preceding 5 years, though these still accounted for a slightly smaller share of the total at risk than lone parents.

Table 3. *At risk of poverty rate before and after social transfers, excluding old age benefits. for those aged 0-64, Finland, 2015-2020*

	Before social transfers, excl. old-age benefits (%)	After social transfers (%)	Effect of social transfers on arpop rate (%-point change)
2015	28.5	12.0	-16.5
2016	29.0	11.5	-17.5
2017	28.8	11.2	-17.6
2018	27.6	11.7	-15.9
2019	26.6	10.9	-15.7
2020	26.8	11.8	-15.0

Source: Eurostat EU-SILC indicators [ilc_li02] and [ilc_li10]. Data downloaded on 14/02/2022.

- Social transfers had the effect of reducing the at-risk-of-poverty (arpop) rate by 15 percentage points in 2020, cutting the number at risk by well over half (56%). This is less than in each of the preceding 5 years, when the reduction varied between 58% and 61%.

Table 4. *At risk of poverty rate and persistent at risk of poverty rate for those aged 18-64, Finland, 2015-2020*

	At risk of poverty rate (%)	Persistent at risk of poverty rate (%)	Persistent rate as % of annual rate
2015	12.7	7.2	56.7
2016	12.2	5.3	43.4
2017	11.6	6.2	53.4
2018	11.9	4.8	40.3
2019	11.1	5.4	48.6
2020	11.8	4.9	41.5

Source: Eurostat EU-SILC indicators [ilc_li02] and [ilc_li21]. Data downloaded on 14/02/2022.

- 42% of the people of working age (18-64) at risk of poverty in 2020 were at persistent risk, i.e. they were consistently at risk for a number of years rather than being at risk for only one year, or temporarily. This is smaller than the proportion in each of the preceding 5 years, except 2018 (40%).

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