

# Finnish Public Policy Measures on Social Welfare and Income Distribution

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# 1. Basis of the Finnish welfare society

# The basis of the Finnish welfare society

- The cornerstones of the Nordic welfare model are non-discrimination and equality, social and health services and education financed by means of tax revenue, high social mobility, and an active civil society.
- Ecologically and socially sustainable economic growth, high employment, sustainable public finances, and stability in the economy mitigate negative impacts on wellbeing.
- The Finnish social security system is a complex combination of several benefits and services that are interacting but are implemented by different institutions.

# Programme of Prime Minister Antti Rinne's Government 2019:

“Climate change, globalisation, urbanisation, the ageing of the population and technological development are all transforming Finland and the world perhaps faster than ever before. In the midst of this transformation, we need policy measures that offer people a sense of security and hope for a better future.”

# Challenges of the Finnish welfare financing and system

- Low-income families and individuals are often dependent on several benefits at the same time and that increases disincentives of the benefit system.
- The social security system is not responsive enough to the changes in people's life situations nor to work life changes.
- Combination of rapidly ageing population and low birth rate is leading to a higher dependency ratio. Persistent and relatively high unemployment hampers the situation.

# The proportion of low-income people of the whole population in 1966–2017



- The proportion of people beyond the poverty line (60 % of the median income of the population at the most) has increased since 1990's.
- The economic growth from 2017 has raised income gaps and caused the increase in the relative proportion of low income people.

Source: Central Statistical Office of Finland:

[http://www.stat.fi/til/tjt/2017/01/tjt\\_2017\\_01\\_2019-03-01\\_kat\\_001\\_fi.html](http://www.stat.fi/til/tjt/2017/01/tjt_2017_01_2019-03-01_kat_001_fi.html)



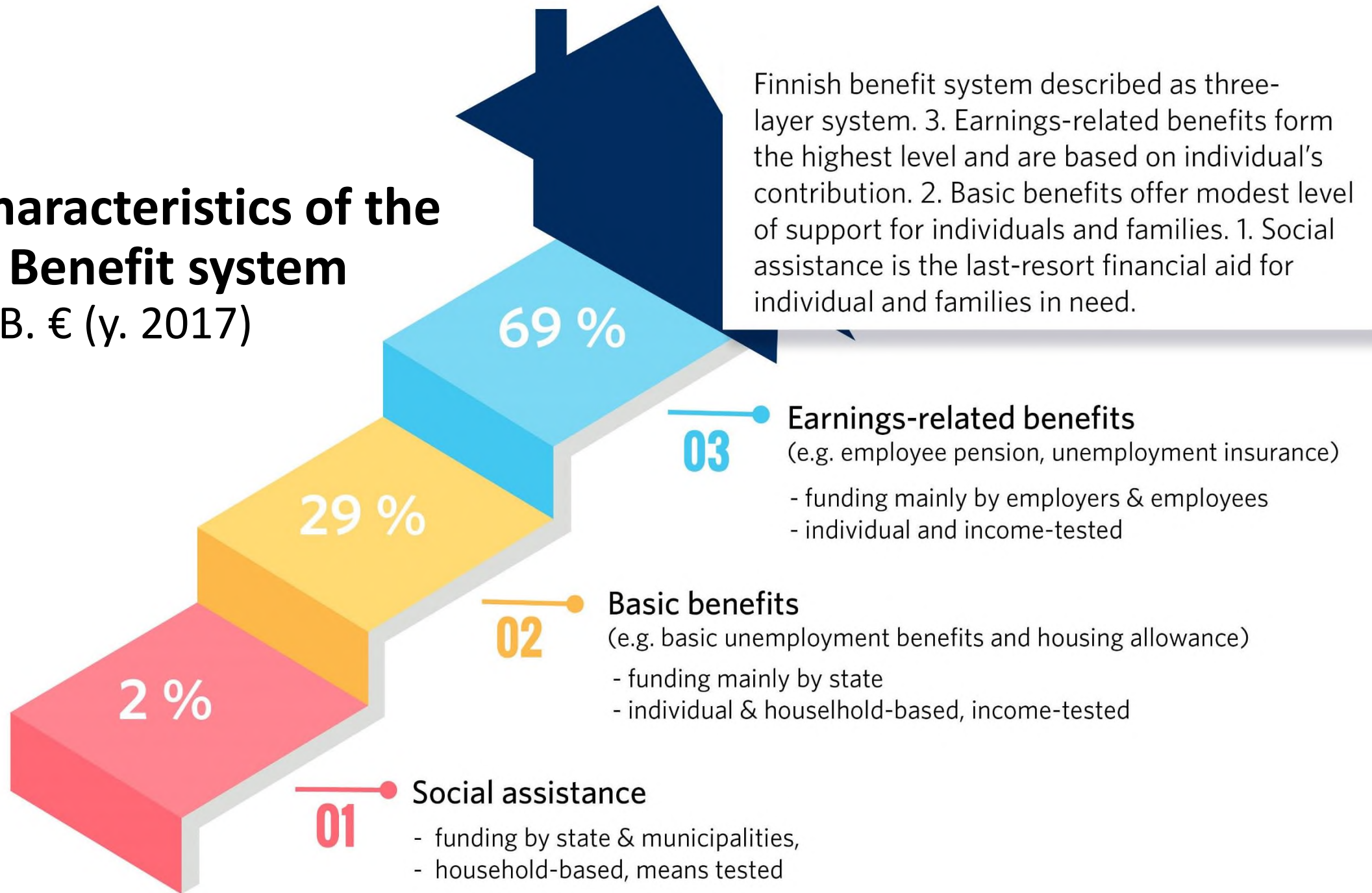
## 2. Social expenditures in Finland

# The state government is one of the financers for social security and basic public services

- The government steers social policy with tax revenue.
- State transfers to the municipalities ensure residents equal access to basic public services: early and primary education, healthcare and social services, libraries, culture, sports and arts.
- The demographic development will have a significant impact on the municipal sector in the near future. This challenges the current transfer system.

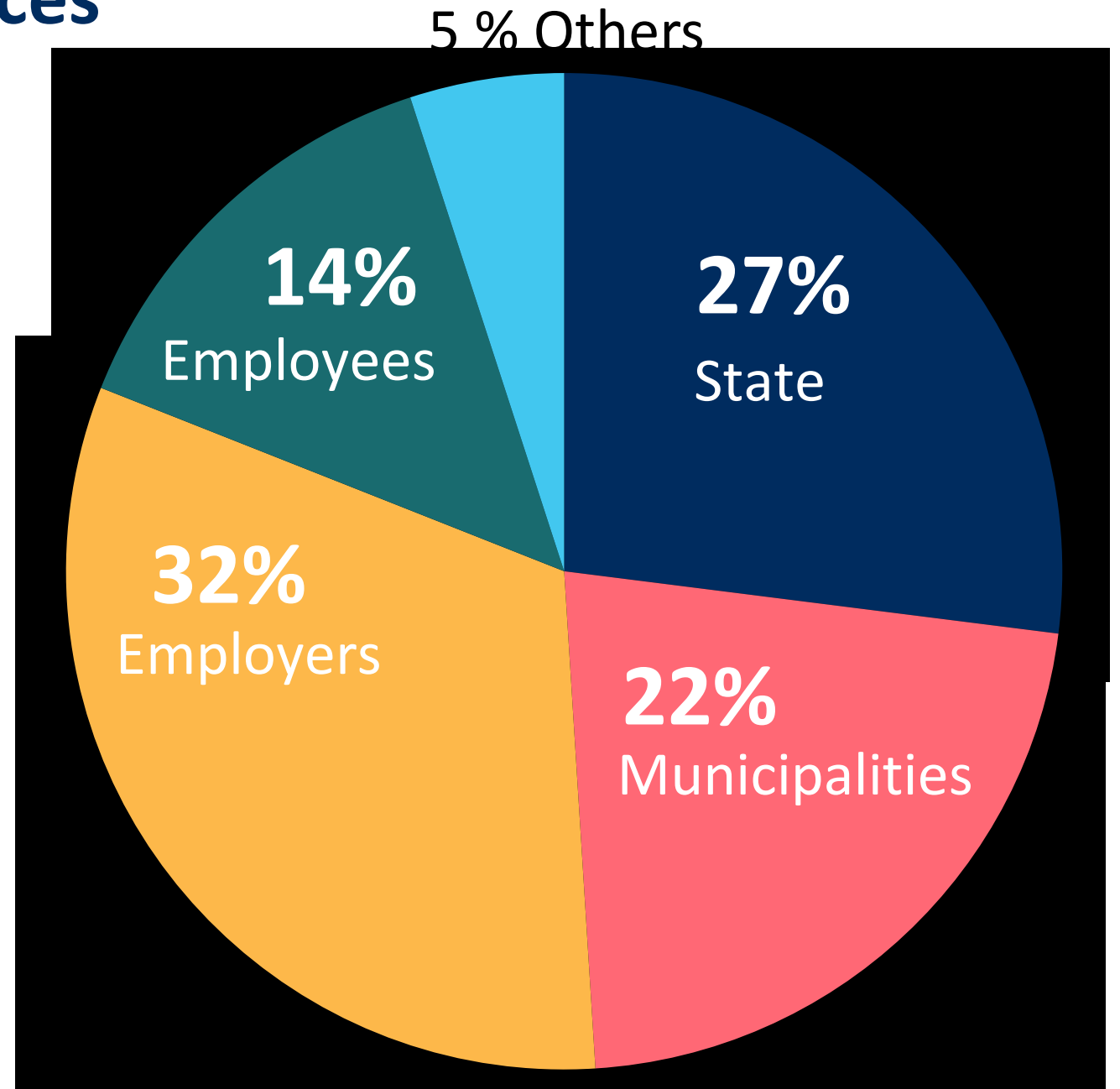
# Main characteristics of the Finnish Benefit system

Total 44 B. € (y. 2017)



# Cost of benefits and services

- In 2017: 69,1 billion euros. As a percentage of GDP: 30,9 %
- Cash benefits 43,7 billion euros and Services 24,2 billion euros. Administration costs were 1,2 billion euros.



# Recipients of basic unemployment benefits, housing allowance and social assistance in Finland

- 10% of all households received social assistance in 2018: 0,8 billion euros
- 15% of the population lived in households in receipt of housing allowance at year-end 2018: 2,1 billion euros
- 10% of the population (ages 17-64) received unemployment benefits at year-end 2018: 3,9 billion euros

# Ongoing debate on the sufficient level of the basic security.

- It is common to supplement basic security with the last-resort social assistance.
- Majority of social assistance recipients receive also housing allowance and almost half receive also basic unemployment benefits.
- Increasing dependency on last-resort social assistance shows that the level has been declining.

# NAOF provides understanding of social security system to support decision-making

Preliminary findings of NAOF performance audit on the last-resort social assistance scheme:

- Cross-governmental cooperation is necessary to integrate benefits and services.
- Changes in one part of the social security system affects the other parts, which is why the system should be looked at as a whole.
- Grass-root level implementation of social security schemes has crucial impact on how objectives of the legislation will actualize. Aims and implementation needs are to be designed hand in hand to prevent unwanted side effects and costs.

# Social security reform

- Social security must respond to the constitutional obligation of providing essential income support and assistance.
- The reform aims at a more streamlined system, where people can balance work and social security in changing life situations, integrating services with benefits.
- The reform covers basic social security, earnings-based benefits and social assistance, the financing and connections between the different forms of support.
- The ongoing reform roadmap extends over the next two parliamentary periods.

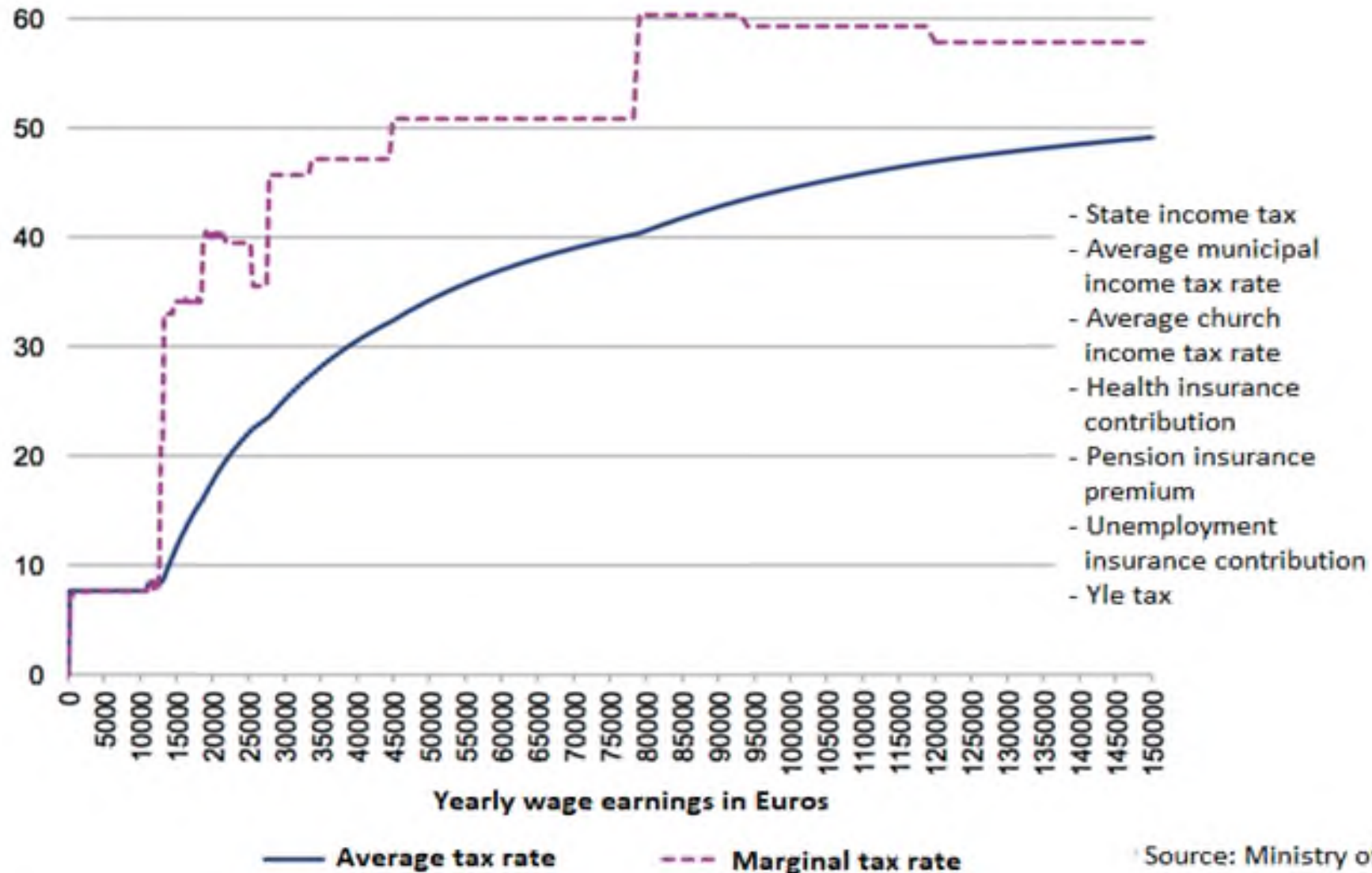


### 3. Progressive taxation affects income distribution

# Personal income taxation

- Average tax rate depicts the degree of progression in personal income taxation
  - Approaching 50% tax for top-earners but relatively low for low-wage earners
- Shape of marginal tax rate curve mainly driven by interplay of state and municipal income tax
  - State income tax is progressive based on tax brackets
  - Municipal income tax is a flat tax with several tax deductions making it a progressive tax
  - Steep increase to 30% at yearly income of approx. 13 000 euros; reaching roughly 60 % for high-wage-earners

# Progression: Average and marginal tax rate (%) by wage earnings



- State income tax
- Average municipal income tax rate
- Average church income tax rate
- Health insurance contribution
- Pension insurance premium
- Unemployment insurance contribution
- Yle tax

Thank



You!