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Suomen Pankin kirjasto



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THE FINNISH BASIC PENSIONS SCHEMES

by Heikki Kaitaranta, M.Pol.Sc.

The Social Insurance Institution

SUOMEN PANKIN
KIRJASTO

INTRODUCTION

In Finland there are two types of pension security schemes with quite different but complementary functions: the basic pensions schemes and the employment pensions schemes. The former provide basic security to all pensioners while the latter, aiming at maintaining the standard of living of the persons covered, provide additional earnings-related benefits to those who have been gainfully employed during their active years. As the employment pensions schemes are relatively young, they cover only a fraction of those who are at present within the basic pensions schemes.

The basic pensions schemes are administered by the authorities who deal with the sickness insurance scheme, another universal plan covering every resident of Finland. It provides compensation for the costs of out-patient care and for the loss of earnings due to short-term disabilities. The present article deals only with the basic pensions schemes; separate articles describing the employment pensions schemes and the sickness insurance scheme will be published subsequently in the Bulletin. This series of articles will touch upon almost all social insurance in Finland.

As indicated, the main function of the basic pensions schemes is to secure a minimum but adequate level of living for the aged, disabled, widowed, etc. All persons aged sixteen and over are insured, and the entitlement to and the size of the pensions do not depend on contributions or past income. Instead, the pensions are partly flat-rate and partly inversely related to the pensioner's income or property, although this relationship is not complete. In connection with the basic pension, the pensioner may receive a broad range of other benefits within the basic pensions schemes.

HISTORY

The first universal basic pensions scheme for the aged and disabled came into force in 1939 after the enactment of the National Pensions Act in 1937. The scheme was based on the banking and funding principle: the insured had to deposit their contributions on personal accounts for financing their pensions after retirement. Since this system was slow to bring full coverage to all and otherwise restricted the availability and size of pensions, it was frequently amended and at last totally revised by a new act in 1956. The revision meant the abandonment of the funding principle and the introduction of the pay-as-you-go principle in the financing system along with a considerable increase in the benefit level. This scheme has subsequently been developed through a number of revisions, the latest of which was made in July, 1973.

In the course of this development the coverage and standard of basic pensions insurance were further extended by new acts. In 1969 the Survivors' Pensions Act, the Assistance Supplements and Housing Allowances Act and the Child Care Allowances Act were passed. In 1971 the Front-Veterans Pensions Act was approved by Parliament. The schemes set up by these acts are closely linked to the national pensions scheme and are all administered by a common agency. Today, the number of beneficiaries covered by the basic pensions schemes exceeds 800 000, which is over 17 per cent of the total population.

ADMINISTRATION

The basic pensions schemes are administered through central organization, the Social Insurance Institution (SII), which was established in 1937 to implement the first basic pensions

scheme. As it also administers the universal sickness insurance scheme, the SII is the major social security agency in Finland and is responsible for a third of all social expenditures.

The SII is financially and administratively an autonomous institution acting under the supervision of Parliament. The managing bodies are the Board and the Enlarged Board, the former taking care of the general management and the latter dealing with such matters as investments and questions of principle. Members of the Board — the Director-General and five Directors — are appointed by the President of Finland while members of the Enlarged Board — other than the Directors — are appointed by the Government. The other main administrative bodies are the Commissioners and the Auditors, the former being appointed to supervise the activities and management of the SII and to present an annual report to Parliament.

The SII is divided into ten departments and has two dense networks of local offices, one for pensions insurance and the other for sickness insurance. However, it has recently been decided to co-ordinate the services at the local level. The SII employs about 4 600 persons and has an large data processing centre with diverse registers and programmes for its accounting and paying operations, as well as a data bank with information about every citizen in Finland.

BENEFITS

There are five classes of benefits in the national pensions programme: invalidity pensions, old-age pensions, unemployment pensions, old age assistance and burial grants. The invalidity pension is payable to those between 16 and 64 who, on account of an illness, defect or injury, are incapable of doing their usual work or taking up another comparable job which, considering their age, occupational skill, and other circumstances, is deemed to be suitable and which will provide them with a reasonable living. The old age pension is payable to everyone 65 years of

age and over. Old age assistance is payable to unmarried women of limited means aged between 60 and 64. The unemployment pension is provided to persons between 60 and 64 after a prolonged period of unemployment. A burial grant is payable to the spouse or the estate of the deceased.

The national pension, whether old age or invalidity, never falls below a basic amount, and may include an assistance amount, an assistance supplement, a housing allowance and a helplessness supplement. The basic amount is a flat-rate benefit. The assistance amount is income- or means-tested, i.e. dependent on the pensioner's income and property. It is payable in addition to the basic amount either in full or at a reduced rate depending on whether and to what extent the income from other sources and the value of property exceed certain limits. However, there are some so-called privileged sources of income which do not affect the assistance amount. The assistance supplement is payable in addition to the full assistance amount after a similar but more rigorous means-test.

The housing allowance is granted to reimburse pensioners for housing costs. It is also means-tested and depends on housing costs within a certain range of costs and certain standards of housing. The helplessness supplement is a flat-rate benefit payable to pensioners who cannot get along without the help of other people, e.g., the blind and those unable to move by themselves. The helplessness supplement is also given to everyone 80 years of age or over.

As indicated earlier, the benefits paid under the survivors' pensions scheme and the front-veterans' pensions scheme are to a great extent similar to those of the national pensions scheme (old age and invalidity). In addition to different components of the national pension, the widow may also receive a training allowance. The newest benefit is the child care allowance, a flat-rate benefit payable to the guardian of a child between three and fifteen who is suffering from prolonged illness.

TABLE 1. REVENUE AND EXPENDITURE UNDER THE SII PENSIONS SCHEMES 1965—1972
Revenue (excl. transfers of funds)

Sources of revenue	1965		1966		1967		1968		1969		1970		1971		1972	
	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent
The insured	190	23.7	202	22.8	218	22.2	240	21.8	265	21.5	344	23.5	396	22.7	439	21.8
Employers	174	21.7	196	22.1	241	24.5	273	24.8	300	34.3	390	26.7	839	48.1	1 004	49.8
State	250	31.2	275	31.1	305	31.0	344	31.3	390	31.6	452	30.9	220	12.6	282	14.0
Municipalities	73	9.1	81	9.2	89	9.0	100	9.1	109	8.8	130	8.9	146	8.4	161	8.0
Yield on assets and other income	114	14.2	131	14.8	131	13.3	142	12.9	171	13.8	146	10.0	144	8.3	132	6.5
Total revenue	801	99.9	885	100.0	984	100.0	1 099	99.9	1 235	100.0	1 462	100.0	1 745	100.1	2 018	100.1

Expenditure (excl. transfers of funds)

	1965		1966		1967		1968		1969		1970		1971		1972	
	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent
Old-age pensions	498	72.1	631	72.3	722	71.1	797	70.2	859	69.3	930	65.4	1 121	64.4	1 234	61.5
Invalidity pensions	171	24.7	216	24.7	261	25.7	301	26.5	329	26.6	379	26.7	473	27.2	544	27.1
Other benefits	6	0.9	7	0.8	8	0.8	10	0.9	20	1.6	76	5.3	104	6.0	179	8.9
Administration and other	16	2.3	19	2.2	24	2.4	27	2.4	31	2.5	36	2.5	42	2.4	50	2.5
Total expenditure	691	100.0	873	100.0	1 015	100.0	1 135	100.0	1 239	100.0	1 421	99.9	1 740	100.0	2 007	100.0

Besides pension benefits the SII also provides services designed to prevent invalidity and to restore working ability. The services include examinations, medical care, rehabilitation, and re-education. These activities have increased considerably during the past three years. The foundation of the SII Rehabilitation Examination Centre in 1972 has facilitated the provision of these services.

The flat-rate basic amount is usually rather small in relation to the supplementary amounts. Since pensions are largely means-tested, the level of the pension tends to rise as incomes from other sources fall. Today, the full basic

pension, payable to a pensioner with very limited means, falls somewhat below the minimum wage. Pensions are increased as the price level rises so that they will not lose their purchasing power. The threshold for this adjustment is a three per cent rise in the cost of living index. All basic pensions and sickness insurance benefits are tax-free.

FINANCING

As was stated above, the financing of the basic pensions schemes is based on the pay-as-you-go principle, which roughly means that the benefits paid during a year are financed by

TABLE 2. BASIC PENSION EXPENDITURES IN RELATION TO DIFFERENT COMPONENTS OF NATIONAL INCOME AND SOCIAL EXPENDITURE

		1965	1966	1967	1968	1969	1970	1971	1972
All benefits ¹ paid under the pensions schemes of the SII	Per cent of private consumption expenditures	4.51	5.38	5.77	5.93	5.75	6.05	6.82	6.90
	Per cent of the total amount of wages and salaries	6.06	6.99	7.47	7.51	7.35	7.47	8.17	8.25
	Per cent of all social expenditures ⁴	23.18	25.13	25.05	23.49	22.60	22.20	22.88	23.86
	<hr/>								
Total budget ² (all expenditures incl. administration and transfers of funds) for the pensions schemes of the SII	Per cent of NDP at factor cost	3.87	4.17	4.45	4.42	4.27	4.25	4.60	4.70
	Per cent of all social expenditures ⁴	27.51	27.19	26.92	25.23	24.53	23.43	23.51	24.61
	Per cent of the total budget of the SII ³	81.71	80.84	75.59	74.89	74.87	74.44	73.23	71.31
	<hr/>								
¹ All benefits (pensions), mill. mk		675	854	991	1 108	1 208	1 385	1 698	1 957
² Total budget (pensions), mill. mk		800	924	1 065	1 190	1 311	1 462	1 745	2 018
³ Total budget of the SII, mill. mk		979	1 143	1 409	1 589	1 751	1 964	2 383	2 830
⁴ All social security in Finland, mill. mk		2 912	3 398	3 956	4 717	5 345	6 239	7 422	8 200

the contributions collected in the same year. In more general terms, the responsibility for the basic social security of today's pensioners lies with the present working generation. Funds are built up only to the extent necessary for maintaining liquidity. The insured, the employers, the State, and the municipalities all participate in the financing.

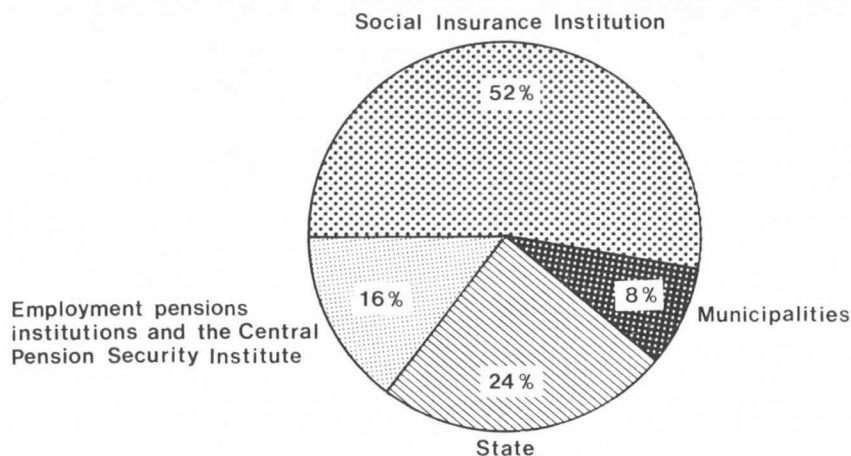
The insured between the ages of 16 and 64 pay two per cent of their income liable to municipal taxation. Employers used to pay a fixed percentage of their payroll, but since April 1, 1973, the percentage has been graduated according to the capital intensity of the enterprise: if depreciation of capital used in the production process (machines, etc.) is less than 50 000 marks, the percentage is 4.25; if depreciation exceeds 50 000 marks and is between 10 and 30 per cent of the payroll, the percentage is 4.75; and if depreciation exceeds 50 000 marks and amounts to more than 30 per cent of the payroll, the payment is 5.25 per cent of wages and salaries. This graduation, which has no parallel in other countries, was adopted in order to reduce the relatively high financing burden borne by labour-intensive firms.

Generally speaking, the State and the municipalities are responsible for the part of the expenditure that is not covered by contributions from the insured and the employers. However, the public sector's share is also fixed at a certain percentage of expenditure on specific benefits. The SII also contributes to the financing with the earnings on its pensions fund.

DEVELOPMENT OF REVENUE AND EXPENDITURE WITHIN THE SII PENSIONS SCHEMES

The rapid development of basic pensions security in Finland during the past few years is reflected in the SII pensions budget figures for the years between 1965 and 1972 (See Table 1). Total revenue and expenditure for the different years are quite close to each other as a consequence of the pay-as-you-go financing system. Both of these totals have grown at a rather steady rate during the past few years, the annual average increase being close to 11.5 per cent. Table 1 also shows the break down of revenue by source and the distribution of expenditure, mainly by type of benefits. In broad terms, there have been no

SOURCES OF FUNDS USED TO PAY PENSIONS IN 1972



major changes between 1965 and 1972. However, the employers' share jumped — and correspondingly the State's share fell — from 1970 to 1971. This is because of a shift in the employers' share in social security financing. From 1971 the basic pensions schemes have been financed primarily from employers' and employees' contributions: they account for more than 70 per cent of revenue in 1972.

An examination of long-term changes in the distribution of expenditures indicates a decline in the share of old age pensions. This has resulted from the introduction of new pensions schemes and the relatively rapid rise in the number of invalidity pensions, which is partly due to a relaxation in the definition of invalidity. However, the old age and invalidity pensions still account for nearly 90 per cent of all expenditures within the basic pensions schemes. In 1972 both revenue and expenditure exceeded 2 000 000 000 marks for the first time.

THE IMPACT OF THE SII PENSIONS SCHEMES ON THE FINNISH ECONOMY

Table 2 gives an idea of the impact of the basic pensions schemes on the Finnish economy and of their contribution to social security. Expenditure is related to different components of national income or product and to total social security expenditure in the years from 1965 to 1972. The figures indicate that

the basic pensions schemes have redistributed income significantly. This effect has become stronger in the course of recent years. In 1972 the benefits paid under the basic pensions schemes made up nearly seven per cent of all private consumption expenditure and clearly over eight per cent of total wages and salaries. Consequently, the basic pensions benefits are an important factor in the efforts which are being made to provide a more even distribution of income.

In Finland, as in other countries, social security expenditures tend to increase more quickly than national income. The share of basic pensions in total social security expenditure remained quite constant from 1965 to 1972, accounting for about a quarter of all social expenditure in Finland.

However, when examined in the light of the total social security budget of the SII, the share of the basic pensions schemes is seen to have decreased continuously from 82 per cent in 1965 to 71 per cent in 1972. This relative decrease has, of course, been a result of the rapid growth of other schemes administered by the SII, the major one being the universal sickness insurance scheme. In fact, total SII expenditure has increased more rapidly than social security expenditure taken as a whole, which means that the SII is playing a rôle of growing importance in the provision of social security.

As the chart indicates, the SII disbursed in 1972 over one half of all pensions paid in Finland.

FUNDS AND INVESTMENTS

As was stated earlier, funds are created only to maintain liquidity, i.e. to serve as a safeguard. This is why the assets of the SII do not play as an important rôle in the economy as do the assets of other credit institutions. However, the SII is obliged by law to invest the assets it has in production, and its credits have greatly helped certain industrial branches, such as construction and power generation. The investments of the SII pension fund totalled about 1 200 million marks at the end of 1972, and were distributed as follows:

	Mill. mk	Per cent
Power stations	571.10	49
Manufacturing	368.90	32
Local authorities	117.66	10
State	15.90	1
Commerce and transport	39.63	3
Electricity	10.56	1
Other goals	9.84	1
Short-term loans	37.10	3
Total	1 170.69	100

In 1972 the total value of the SII's investments fell by 82 million marks as funds were used to make short-term loans. Investment has tended to decline over the past few years, and it is expected that this trend will continue unless the financing capacity of the SII rises to meet the annual growth of expenditure on pensions benefits.

FUTURE PROSPECTS

The July 1, 1973 amendment to the basic pensions schemes greatly increased the number of pensioners qualifying for supplementary benefits. This along with the rapid growth in the number of people of retirement age will ensure a high rate of increase in expenditures during the coming years. It is estimated that by 1977 or 1978 expenditures within the basic pensions schemes will have doubled. This development will mean that much attention will have to be devoted to finding new forms of financing. Another acute problem will be the co-ordination of Finland's rather complex pensions security systems.

THE FINNISH EMPLOYMENT PENSIONS SCHEME

by Jouko Janhunen, M. A.

The Central Pension Security Institute

In Finland compulsory earnings-related pension protection is provided by an employment pensions scheme and pensions schemes for State, municipal and church employees, and seamen. The employment pensions scheme was established in 1956 when the basic (national) pensions scheme of 1939 was expanded so as to guarantee a minimum level of living to all pensioners. The labour organizations were of the opinion that the basic pensions scheme with partly flat-rate and partly means-tested benefits did not provide adequate income and that pensions related to past earnings were necessary. After thorough preparation by a special committee and lengthy negotiations between the labour market organizations, Parliament passed the Employees' Pensions Act and the Temporary Employees' Pensions Act, both of which came into force on July 1, 1962. At first the employment pensions scheme covered only employees, but at the beginning of 1970 it was extended to include self-employed persons through the Farmers' Pensions Act and the Self-Employed Persons' Pensions Act.

The Employees' Pensions Act served as the model for the revision of earlier acts concerning earnings-related pensions for State, municipal and church employees. These as well as the seamen's pensions act are outside the scope of the present article on employment pensions for employees and self-employed persons.

A DECENTRALIZED ORGANIZATION

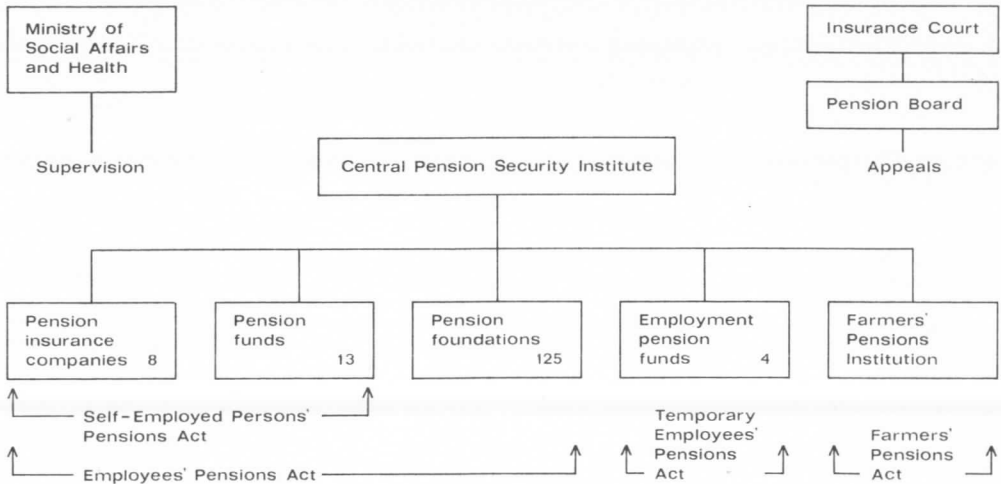
The acts require employers to provide pension protection for their employees. According to the Employees' Pensions Act the employer can do this either by taking out pension insurance with an authorized pension insurance company or by establishing a pension fund or

pension foundation. Pension institutions of these types were selected to administer the compulsory employment pensions because they had earlier taken care of the voluntary employment pension arrangements. A pension fund usually covers the employees of several employers in the same branch, while a pension foundation provides protection for the employees of a single enterprise. It is not possible to establish a fund or foundation unless there are at least 50 employees involved. At the end of 1973, there were eight insurance companies, 13 pension funds and 125 pension foundations. Under the Temporary Employees' Pensions Act the responsibility for pension insurance for people working in construction, dock work, forestry and agriculture rests with four employment pension funds.

Farmers' pension protection is administered by a separate body, the Farmers' Pensions Institution, while the pension insurance of other self-employed persons is administratively linked with other employment pension insurance. The self-employed can take out personal insurance with any insurance company or pension fund which operates under the Employees' Pensions Act. It is also possible to establish an insurance company or pension fund operating under the Self-Employed Persons' Pensions Act.

The operations of institutions providing employment pensions for employees and self-employed persons are coordinated by the Central Pension Security Institute, which takes care of the application of pensions acts, research work, supervision of pension institutions, and the statutory distribution of pension costs among pension institutions. It also keeps national registers on the insured, their contracts of employment, their self-employment activi-

ORGANIZATION OF THE EMPLOYMENT PENSION SCHEME



ties and pension benefits. These registers also include information on the pension benefits accrued under earnings-related pensions schemes outside the employment pensions scheme. This facilitates cooperation between the employment pensions scheme and other pensions schemes. The organizations of employees, employers and self-employed persons as well as experts on matters concerning pensions are represented in the administrative organs of the Central Pension Security Institute. A Pensions Board and an Insurance Court consider appeals. The Ministry of Social Affairs and Health supervises the operations of the employment pensions scheme. The organization of the employment pensions scheme is shown in the chart.

SCOPE OF THE SCHEME

Finland, with a population of 4.6 million, has a labour force of 2.1 million of whom 1.6 million (80 per cent) are covered by the employment pensions scheme. The rest of the labour force is covered by the earnings-related pensions acts outside the employment pensions scheme. Of the 970 000 who are protected under the Employees' Pensions Act, 75 per cent have their pensions guaranteed through pension insurance issued by an insurance company, 17 per cent with insurance from a pension foundation, and 8 per cent with insurance from a pen-

sion fund. Only 2.5 per cent of the self-employed persons belong to a pension fund, others have taken out insurance with an insurance company.

The Employees' Pensions Act applies to every person with a private contract of employment at least one month old whose monthly earnings exceed a certain limit (200 marks in 1974) or to people who regularly work at least 20 hours per week. The Temporary Employees' Pensions Act applies to pensions with short-term contracts of employment in construction, dock work, forestry and agriculture. A self-employed person who is 18 years of age and who has continued his entrepreneurial activity without cessation for four months and has a monthly income above a certain limit (400 marks in 1974) is covered by the Self-Employed Persons Pensions Act. Farmers, fishermen and reindeer breeders who are 18 years of age and have met certain other requirements are protected by the Farmers' Pensions Acts.

PENSION BENEFITS

The employment pensions scheme provide old age, invalidity, unemployment, and survivors' pensions. The first survivors' pensions were paid in 1967, and the first unemployment pensions in 1971. Invalidity protection

was extended at the beginning of 1973 by the provision of partial invalidity pensions. The pension benefits accrued under the scheme are fully vested. Unlike national pensions, the employment pensions are considered to be taxable income.

An old age pension is granted to an insured person who reaches the age of 65 and terminates his contract of employment. Self-employed persons and farmers receive their pensions regardless of whether they continue their entrepreneurial activities. An invalidity pension is awarded to an insured person who, as a result of illness or injury, is judged to be incapable of earning a living when his training, earlier work, age, housing conditions, etc., are taken into account. A full invalidity pension is paid when the person's working capacity has gone down by at least 60 per cent of its former level. If the person's working capacity declines less, but by at least 40 per cent, the insured is entitled to a partial pension. An unemployment pension is paid to an insured person 60 years of age who has received unemployment benefits for a minimum of 200 days in the previous 52 weeks. A survivor's pension is granted to a widow with a child who is entitled to a survivor's pension and to a childless widow who is 40 years old and was married to her husband, for at least three years. A child receives the pension until the age of 18. However, if he is disabled, he continues to receive the benefit.

The size of the old age pension is determined by taking one per cent of the final earnings and multiplying by the number of years the person has participated in the scheme. For the years before the implementation of the pension acts, however, the pension is calculated at 0.5 per cent per annum. Since employment under the age of 23 or over the age of 65 is not counted, the maximum old age pension comes to 42 per cent of the final pay. A minimum pension, ranging between 16 and 22 per cent of earnings in the last year of employment, is paid to certain older persons. The pensions of self-employed persons are determined in the same way, except that years of employment are calculated from the date that the acts came

into force. The earnings on which a farmer's pension is based are determined by taking into account the area he cultivates.

The invalidity and unemployment pensions are calculated in the same way as old age pensions. However, the time between the accident entitling the person to the pension and the initial date for calculating the old age pension is counted as the time of service. The partial invalidity pension is half of the full pension, but is never less than 19 per cent of the final pay. The child supplement is added to the old age, invalidity, and unemployment pensions. The supplement amounts to 20 per cent of the pension for one child and 40 per cent for two or more children under 18. The size of the survivor's pension depends on the number of beneficiaries and the pension the deceased received or was entitled to at the time of his death. The full survivor's pension is equal to the deceased's pension and is paid if there are at least three beneficiaries. If there are two, the survivor's pension is $\frac{3}{4}$ of the full pension and $\frac{1}{2}$ if there is only one beneficiary.

Every pensioner (excluding those entitled to a partial pension) receives at least the flat-rate basic (national) pension in addition to the employment pension and may also receive other social security benefits. The employment pension is co-adjusted with these so that the total pension without the child supplement does not exceed 60 per cent of the final pay and with the child supplement 66 per cent of the final pay. These limits are raised for persons in the lower income brackets.

VOLUNTARY ADDITIONAL BENEFITS

The employment pensions acts allow for the voluntary improvement of the benefits. The most common arrangement is one in which the full old age and invalidity pension is 60 per cent of past earnings, the period entitling the person to the full pension is 30 years, and survivor's pension for three beneficiaries amounts to 60 per cent of the past earnings of the deceased. Additional benefits may be registered with the

Central Pension Security Institute, which means that they are combined with compulsory pensions, index linked and vested. So far, only the additional pensions administered by insurance companies (covering 35 000 employees) have been registered. In all, about 12 per cent of the labour force is covered by voluntary additional benefits. These benefits are most commonly arranged in banking, insurance, and manufacturing, least commonly in agriculture, forestry, and construction.

NUMBER OF PENSIONERS AND PENSION COSTS

During the first decade of the employment pensions scheme the number of pensioners increased many times over. This is an outcome of the gradual entry into force of the scheme and of the introduction of new pension benefits. As the number of pensioners increased, the pension costs grew (see table 1).

TABLE 1. NUMBER OF RECIPIENTS AND TOTAL AMOUNT OF EMPLOYMENT PENSIONS PAID IN 1963—1972

Year	Number of recipients	Total value of employment pensions, mill. mk
1963	3 600	2.9
1964	11 300	12.7
1965	21 100	29.1
1966	35 800	54.7
1967	54 100	86.3
1968	76 800	139.5
1969	100 500	209.6
1970	134 700	286.5
1971	182 000	406.6
1972	233 800	598.2 ¹

¹ In 1972, earnings-related pension benefits outside the employment pensions scheme totalled 1 240 million marks. Most of this was paid under the State Employees' Pensions Act and the Communal Employees' Pensions Act.

The greater part of the pension benefits in the employment pensions scheme are paid by institutions governed by the Employees' Pensions Act and the Temporary Employees' Pen-

sions Act. For instance in 1972 benefits paid by these institutions accounted for 86.5 per cent of total pension benefits paid. One explanation for this is that these pension institutions cover about 70 per cent of all the persons covered by the scheme. The small share of self-employed persons and farmers is a consequence of the fact that they entered the scheme only in 1970 and when determining the pension, the period before enactment of the pensions laws is not taken into account.

Moreover the average employment pension benefit has gone up. Since the first years of the scheme it has increased almost threefold. In September 1973, the average employment pension — excluding voluntary additional benefits — was 224 marks per month. As stated before, every pensioner also receives the basic (national) pension.

One of the aims of the employment pensions scheme is to preserve during retirement the level of living achieved during the active years. Employment pensions and the earnings used for calculating the pension are thus bound to a wage index indicating increases in the general level of earnings. The index is calculated once a year and pensions are increased by the same percentage as the index rises. The increase in the wage index is the main reason why the average employment pension has almost trebled. The development of the wage index is shown in table 2.

FINANCING OF THE EMPLOYMENT PENSIONS

The employer finances his employees' pensions entirely. Public funds are not used at all. In the early phase of the scheme the insurance premium under the Employees' Pensions Act was 5 per cent of the wage bill, while under the Temporary Employees' Pensions Act it was

TABLE 2. DEVELOPMENT OF THE WAGE INDEX IN 1963—1974, 1962 = 100.

Year	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Index	106	116	130	142	152	165	182	197	216	247	274	315
Increase, per cent	6.0	9.4	12.1	9.2	7.0	8.5	10.3	8.2	9.6	14.4	10.9	14.9

4.5 per cent of the wage bill. In 1974, the premium under the Employees Pensions Act is 6.9 per cent of the pay total wage bill if the firm has less than 50 employees. If there are 50 or more, the premium for each employee depends on his age. When there are voluntary additional benefits involved, the employees usually contribute by paying a part of the premium, although not more than half. Under the Temporary Employees' Pensions Act the premium amounts to 8 per cent of the wage bill in 1974. Self-employed persons other than farmers finance all their own pension costs, and the State pays half of the costs of pensions for farmers. Without the State's participation premiums for pensions for farmers would be unreasonably high owing to the age distribution of the farming population. In 1974, the premium under farmers' and other self-employed persons' pensions acts ranges between 2.8 and 6.9 per cent depending on income.

Under the employment pensions scheme some of the premiums are funded, and some are used directly in a pay-as-you-go system. This mode of financing meant that relatively low premiums could be implemented in the early phase of the scheme and only later were they allowed to slide upwards gradually. Only the premiums collected for the old age pensions of persons between ages 23—54 are funded in their entirety. The pensions which are financed through the pay-as-you-go system, e.g., increases resulting from index linkages and all the unemployment pensions, are to be met jointly by all the pension institutions. These pensions are paid out from a common pool. Every year the Central Pension Security Institute carries out clearing operations, i.e., it determines the share of each institution in the pension costs to be met jointly by the institutions in the pool. The pool is of relatively great importance, e.g., in 1972 about 58 per cent of the pension costs were paid out jointly by pension institutions through the pool. An ever increasing part of the premiums collected annually are used in the pay-as-you-go system as is shown in table 3. In 1972, more than half of the premiums collected were spent to meet the pension costs of that particular year.

TABLE 3. SHARES OF THE PENSION COSTS IN THE PREMIUMS COLLECTED IN 1962—1972

Year	Premiums collected, mill. mk	Share of pension costs met by premiums, per cent
1962	98.5	—
1963	197.7	1.5
1964	279.0	4.6
1965	317.5	9.2
1966	338.0	16.2
1967	356.8	24.2
1968	431.0	32.4
1969	517.2	40.5
1970	668.7	42.8
1971	862.5	47.1
1972	1 169.0	51.2

Because all premiums are not used in the pay-as-you-go system, the employment pensions scheme has a premium reserve. At the end of 1972, the reserve totalled about 4 667 million marks. Table 4 illustrates the development of the reserve in 1962—1972.

TABLE 4. PREMIUM RESERVE OF THE EMPLOYMENT PENSIONS SCHEME IN 1962—1972

Year	Premium reserve, ¹ mill. mk
1962	97.9
1963	339.3
1964	764.8
1965	1 112.0
1966	1 441.3
1967	1 795.7
1968	2 196.3
1969	2 621.0
1970	3 164.9
1971	3 844.7
1972	4 667.1

¹ Figures include the reserves of the compulsory pension protection scheme and the additional voluntary pension protection scheme registered in the Central Pension Security Institute. The share of the latter reserve is slightly more than 10 per cent.

The reserves of the employment pensions scheme are about half of all the pension reserves in Finland. The employment pensions reserve is relatively modest when compared with other forms of savings. For instance, the total deposits in banking establishments grew, by 3 798 million marks in 1972. Under the employment pensions scheme only 2 800 marks has been funded for each insured person.

INVESTMENT OF THE ASSETS OF THE SCHEME

When establishing the employment pensions scheme it was considered important that its future assets could be used to promote economic activity and improve employment. Therefore the employment pensions assets managed by pension institutions have been invested in commerce and industry. This is of considerable importance because much capital is needed to change the structure of the economy and to create employment for the manpower released from agriculture.

Pension institutions invest their funds either in insurance premium loans or investment loans. Under the insurance premium loan arrangement, an employer can automatically borrow the funds which have accrued from his own premiums. In practice this means that premiums are paid in promissory notes. The interest rate on insurance premium loans is 7 per cent. As all employers do not borrow the premiums they have paid, the pension institutions have funds to lend as investment loans. In accordance with the wishes of the State and labour market organizations, some assets have also been invested in employment and nuclear power plant bonds, and in the construction of housing. The interest rate on investment loans ranges between 9.75 and 10.0 per cent.

The guarantees for the loans must be good enough to ensure that investment losses do not

occur. A special credit insurance department which works in association with the Central Pension Security Institute has been established to facilitate the arrangement of guarantees. In pension foundations and funds, insurance premium loans, pension liabilities, funding deficits, and investment losses can be guaranteed by credit insurance. About 70 per cent of the assets of pension foundations and funds are in the form of promissory notes, and they are all covered by credit insurance. The loans given by pension insurance companies can be covered by credit insurance, bank guarantees or real-estate-mortgages. In practice credit insurance has proven to be popular with the pension insurance companies. The law does **not** give the Central Pension Security Institute the right to deny credit insurance to an employer who borrows from his pension institution or who pays his premiums in the form of promissory notes. However, the premium for the credit insurance can be set at whatever level required by the applicant's solvency. At the end of 1971, the credit insurance portfolio totalled 1 255 million marks, of which the share of insurance companies was 456, the share of pension foundations 543, the share of pension funds 248, and the share of employment pension funds 8 million marks. Compared with 1970 the increase in the portfolio was 16 per cent. Altogether credit insurance guarantees about 30 per cent of the total value of loans granted under the employment pensions scheme.

TABLE 5. DISTRIBUTION OF EMPLOYMENT PENSION LOANS BY BORROWER, DEC. 31, 1971

Borrower	Insurance premium loans		Investment loans		Total	
	mill. mk	per cent	mill. mk	per cent	mill. mk	per cent
Agriculture, forestry, fishing	11	0.5	5	0.4	16	0.5
Mining	16	0.8	1	0.1	17	0.5
Manufacturing	1 261	61.5	397	28.0	1 658	47.8
Electricity and power plants	40	2.0	26	1.8	66	1.9
Construction	48	2.3	183	12.9	231	6.7
Commerce	438	21.4	126	8.9	564	16.3
Transport and communications	70	3.4	30	2.1	100	2.9
Real estate	2	0.1	211	14.8	213	6.1
Municipalities, parishes	0	0.0	64	4.5	64	1.8
Services	84	4.1	34	2.4	118	3.4
Private and miscellaneous credits	36	1.8	48	3.4	84	2.4
Banking establishments	43	2.1	70	4.9	113	3.2
State	—	—	224	15.8	224	6.5
Total	2 049	100.0	1 419	100.0	3 468	100.0

Close upon one half of the pension institution loans has been granted to manufacturing. At the end of 1971, manufacturing had received 61.5 per cent of the insurance premium loans. Commerce accounted for another 21.4 per cent. Manufacturing firms received the single largest share of investment loans, i.e., 28 per cent of the total. The second biggest borrower was the State, which took 15.8 per cent. Table 5 contains information on the distribution of employment pension loans by borrower at the end of 1971. Pension institutions had then invested 3 468 million marks, in commerce and industry. The share of insurance premium loans came to 59 per cent.

The importance of the employment pensions scheme as a creditor is not yet considerable even though the share of employment pensions loans in total credits granted has increased continuously. At the end of 1971, total credits amounted to 36 440 million marks, of which employment pensions loans accounted for 8.6 per cent (Table 6). As compared with the

previous year, the share of employment pensions loans had increased by 0.4 percentage point.

FUTURE PROSPECTS

The employment pensions scheme has developed very rapidly during its short existence. Its coverage has been extended from employees to farmers and other self-employed persons; new pension benefits have been introduced to the scheme and existing benefits improved. No doubt this reflects the cooperation of labour market organizations in setting up the scheme and the important role which employment pensions have had in collective bargaining. The scheme is likely to be developed further on this basis. The most important future improvement is the proposed rise in the annual pension accumulation percentage from the 1 per cent to 1.5 per cent.

In the 1970s, both the number of pensioners and total pension costs will increase considerably under the employment pensions scheme. In 1972 there were 233 800 pensioners, yet in 1975 the number is estimated to come to 370 000 and in 1980 to 530 000. In 1972, nearly 600 million marks was paid out in employment pensions. By the middle of the current decade the amount will be 1 120 million marks without any major amendments to pensions acts and in 1980 it will rise to 2 300 million marks. (In the estimates for increases in pension costs it has been assumed that wages and pensions will rise by 8 per cent a year). During the 1970s, the growth of the employment pensions scheme and the earnings-related pensions schemes outside it, will make the various earnings-related pensions the most important form of pension protection.

TABLE 6. THE SHARE OF EMPLOYMENT PENSION LOANS IN TOTAL CREDITS GRANTED BY BORROWER, DEC. 31, 1971

Borrower	Total granting of credits, mill. mk	Share of employment pensions loans, per cent
Agriculture, forestry, fishing	3 277	0.5
Mining	227	7.5
Manufacturing	10 486	15.8
Electricity and power plants	1 576	4.2
Construction	781	29.6
Commerce	3 719	15.2
Transport and communications	908	11.0
Real estate	5 234	4.1
Municipalities, parishes	2 141	3.0
Services	918	12.9
Private and miscellaneous credits	7 173	1.2
Total	36 440	8.6

THE FINNISH SICKNESS INSURANCE SCHEME

by Heikki Kaitaranta, M.Pol.Sc.

The Social Insurance Institution

INTRODUCTION

The sickness insurance scheme is the youngest of the major social security schemes in Finland. It was introduced in 1964 after a long period of planning, political discussion and debate.

The sickness insurance covers only the costs of out-patient care, and compensates persons for losses of earnings or working capacity resulting from illness or maternity. Along with providing compensation, the scheme aims at encouraging people to seek care, the target being a proper balance between the need and demand for medical services. Moreover, the scheme also includes prevention of diseases and rehabilitation.

The scheme is universal in the sense that it covers the costs of medical care of every resident in Finland, and provides daily and maternity allowances for all those aged between 16 and 64. Also the entitlement to any form of benefit does not depend on contributions. In 1972 more than half of the total population received compensation for medical care costs and about one tenth of those aged 16 to 64 were paid daily allowances.

ADMINISTRATION

The sickness insurance scheme is administered by the Social Insurance Institution (SII), which also implements the basic pensions schemes. The SII is financially and administratively an autonomous institution, and responsible directly to Parliament. The general management of the SII has been described in an earlier issue of the Bulletin (Vol. 47, No 11).

For purposes of local administration, the country is divided into five sickness insurance

areas and into 204 sickness insurance districts. In each district there is a sickness insurance board to deal with applications for sickness benefits. These boards have five members, three appointed by the local councils, one — a physician — by the county administration, and one — the chairman of the board — by the SII. The activities of the local boards are supervised and coordinated by the area offices and the Sickness Insurance Department of the SII.

The Rehabilitation Department and the Rehabilitation Examinations Centre take care of rehabilitation and the prevention of illnesses. In connection with the Centre there is a mobile clinic for the detection of hidden diseases and the charting of the most common illnesses in Finland. The effects of the sickness insurance scheme as well as of the other SII schemes are constantly evaluated in light of their targets through studies conducted in the research division of the SII, the Research Institute for Social Security. The aim of the research is to help the SII to fulfil one of its most important duties: formulating legislation in the field of social security.

BENEFITS

The scheme refunds a part of physicians' fees, charges for those medicines, examinations and treatments that are prescribed by a physician, and travelling expenses directly related to an illness. In more specific terms, the scheme provides compensation in the following way:

Care by a general practitioner or specialists: 60 per cent of the fee up to a limit set by a list of standard rates

Examination and treatments: 75 per cent of the charge less 6 marks, up to a limit set by a list of standard rates

Medicines: 50 per cent of the price less 4 marks, or, in cases where the medicine is for a severe chronic illness, 100 per cent of the total price

Travel by a physician or patient which is necessary on account of the illness: 100 per cent of the one-way cost less 2 ½ marks; travel is to be by the cheapest but most suitable form of transportation considering the state of the illness and other circumstances

Dental care; compensation is similar to that paid for a physician's services but only in cases where the treatment is necessary for curing other than a purely dental disease.

Some other expenses connected with out-patient care are also partially refunded, e.g., costs of housing or hotel accommodation related to travel necessitated by an illness. In order to receive compensation for physicians' fees the patient cannot change his doctor during the course of a particular illness without an acceptable reason. Otherwise, the patient can choose his physician freely.

Losses of earnings or working capacity are made up through daily and maternity allowances. The daily allowance is paid to everyone aged between 16 and 64, who on account of illness is incapable of doing his customary work. Consequently, self-employed persons such as farmers and those usually without any income such as housewives and students are entitled to the daily allowance. The minimum daily allowance amounts to 10 marks. Otherwise, the daily allowance is income-determined at the rate of 1.5 per mill of the insured person's annual income. This means that on the average 45 per cent of a day's earnings are made up. There is, however, an upper limit of slightly over 38 marks per day.

If the beneficiary is the principal provider of the family, the daily allowance is increased by 15 per cent for the spouse and by 10 per cent for each child under 16. The daily allowance is not paid for Sundays and only after seven days have elapsed from the first day of disability. If the period of disability lasts 300 week-days without cessation, the allowance is no longer paid but

the beneficiary is then entitled to apply for an invalidity pension which is paid under the basic pensions scheme of the SII.

The maternity allowance is payable to every expectant mother for 72 week-days, partly before and partly after childbirth. It is income-determined on the same basis as the daily allowance. The entitlement to the maternity allowance begins after a period of 180 days of pregnancy. Both the daily and maternity allowances are paid to the employer of a beneficiary if the employer pays a salary or wages during sickness or maternity leave. Moreover, if the beneficiary is also entitled to compensation from other sources, the allowances are paid only to the extent that money from other sources falls short of the sickness insurance allowance.

Besides compensation in cash, the SII provides preventive and rehabilitation services in order to prevent disabilities and to restore the working capacity of those taken ill. The services include health screening, examinations for defining the need for rehabilitation, medical care, work experiments, and vocational training. The SII also defrays some of cost of occupational and students' health services.

All benefits and allowances of the sickness insurance scheme are tax-free.

FINANCING

The financing of both the basic pensions schemes of the SII and the sickness insurance scheme is based on the pay-as-you-go principle, i.e., annual expenditures are financed directly through annual contributions, and funds are formed only in order to maintain liquidity. In keeping with the common tripartite formula, the insured persons, the employers and the State all participate in the financing of the scheme.

The insured pay one and a half pennies per mark of their income subject to municipal taxation. The employers contribute at a rate of two per cent of their payroll. If these contributions do not cover the total expenditures,

**TABLE 1. REVENUE AND EXPENDITURE WITHIN THE SICKNESS INSURANCE SCHEME OF THE SII
1965—1972**

Revenue (excl. transfers of funds)

Source of revenue	1965		1966		1967		1968		1969		1970		1971		1972	
	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent
The insured	89	52.0	102	46.4	177	51.5	200	50.1	222	50.5	251	50.7	285	44.9	316	39.4
Employers	58	33.9	64	29.1	166	48.3	194	48.6	214	48.6	241	48.7	323	50.9	377	46.9
State	24	14.0	53	24.1	—	—	—	—	—	—	—	—	—	—	72	9.0
Other	—	—	1	.5	1	.3	5	1.3	4	.9	3	.6	27	4.3	38	4.7
Total	171	99.9	220	100.1	344	100.1	399	100.0	440	100.0	495	100.0	635	100.1	803	100.0

Expenditure (excl. transfers of funds and administration)

Benefits	1965		1966		1967		1968		1969		1970		1971		1972	
	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent	Mill. mk	Per cent
Daily allowances	68	44.7	84	45.7	121	41.7	132	39.2	142	38.5	184	41.1	223	39.0	285	39.4
Maternity allowances	22	14.5	25	13.6	29	10.0	30	8.9	29	7.9	34	7.6	48	8.4	56	7.7
Physicians' fees	—	—	—	—	42	14.5	50	14.8	54	14.6	58	12.9	64	11.2	78	10.8
Medicine	43	28.3	50	27.2	63	21.7	83	24.6	94	25.5	111	24.8	142	24.8	182	25.2
Examinations and treatment	10	6.6	13	7.1	18	6.2	21	6.2	24	6.5	30	6.7	36	6.3	46	6.4
Travel and other	9	5.9	12	6.5	17	5.9	21	6.2	26	7.0	31	6.9	59	10.3	76	10.5
Total	152	100.0	184	100.1	290	100.0	337	99.9	369	100.0	448	100.0	572	100.0	723	100.0

the State pays the rest. According to the sickness insurance law, two per cent of the insured persons' annual contributions is used to finance special expenditure on preventive and rehabilitation services.

Although the sickness insurance scheme and the basic pensions schemes are administrated by a single agency, they have separate financing systems and separate funds. The sickness insurance fund is considerably smaller than that of the basic pensions schemes, which account for over 70 per cent of the total SII budget. Only short-term loans were granted from the sickness insurance fund in 1972.

DEVELOPMENT OF REVENUE AND EXPENDITURE

A broad range of factors — both connected with the expanding economy and unique to

the sickness insurance scheme — has contributed to the rapid growth of income and expenditure during the past years. The basic factor is the partial linkage of the daily and maternity allowances and the contributions paid by the insured and employers to changes in wages and salaries. Other factors are the expansion and development of the scheme, the rising cost of providing medical services, and increased consumption of these services which in turn is partly due to the fall in price and partly to improved availability of services. The growth of revenue has kept pace with rise in expenditure, largely on account of increases in the contribution rate. These adjustments were and obviously will be needed to make up for the fact that expenditures having been growing more quickly than wages and salaries, which serve as the basis for determining the contributions.

TABLE 2. EXPENDITURE OF THE SICKNESS INSURANCE SCHEME IN RELATION TO DIFFERENT COMPONENTS OF THE DOMESTIC PRODUCT AND SOCIAL EXPENDITURE

		1965	1966	1967	1968	1969	1970	1971	1972
All benefits ¹ paid under the sickness insurance scheme	Per cent of private consumption expenditures	1.01	1.15	1.66	1.79	1.76	1.94	2.30	2.55
	Per cent of the total amount of wages and salaries	1.36	1.48	2.18	2.27	2.25	2.40	2.76	3.05
	Per cent of all social expenditures	5.19	5.36	7.31	7.10	6.90	7.13	7.72	8.82
Total budget ² (all expenditures incl. administration and transfers of funds) for the sickness insurance scheme	Per cent of NDP at factor cost	0.87	0.99	1.44	1.48	1.43	1.46	1.68	1.89
	Per cent of all social expenditures	6.15	6.44	8.70	8.46	8.23	8.05	8.60	9.90
	Per cent of the total budget of the SII	18.29	19.16	24.41	25.11	25.13	25.56	26.77	28.69
	¹ All benefits, mill. mk	151	182	289	335	369	445	573	723
	² Total budget, mill. mk	179	219	344	399	440	502	638	812

Table 1 shows the development of revenue and expenditure from 1965 to 1972. In the course of these years, both revenue and expenditure have increased at an average annual rate of nearly 26 per cent. The variation in the growth rates for different years is similar for both income and expenditure. This is again a result of the pay-as-you-go system, which guarantees that expenditure and revenue are at least roughly matched each year.

The distribution of expenditure arising from the payment of different benefits has remained quite constant since 1967 when for the first time physicians' fees were included in the refundable costs of care. Expenditures are divided almost evenly between income-determined allowances and compensation for the costs of medical care. The shares of the various sources of funds in total revenue are also relatively constant, provided that those few years when the State did contribute are not taken into account. The amount paid by the insured was a little greater than that paid by the employers until 1971 when there was an adjustment in the contribution rates.

The development in relation to the components of domestic product and total social expenditures can be seen in table 2. Although

the trend is somewhat uneven, the sickness insurance scheme does seem to have increased its share in all the items concerned over the long run. The trend is more distinct when measured against components of the domestic product than against social expenditures, which have generally grown faster than the economy as a whole — a phenomenon that is common to all industrialized countries.

In 1972 the total sickness insurance budget amounted to about two per cent of net domestic product, while total benefits and allowances came to about two and a half per cent of private consumption expenditure and slightly over three per cent of wages and salaries. The sickness insurance scheme has also constantly increased its share in the total budget of the SII, from about 18 per cent in 1965 to nearly 30 per cent in 1972.

IMPACT OF THE SICKNESS INSURANCE ON THE CONSUMPTION OF MEDICAL COMMODITIES

Before the implementation of the scheme it was argued that it would lead not only to lower prices for medical services but also to some »unnecessary» consumption of health services. To evaluate this argument as well as

to assess the overall effects of the scheme, an extensive research project based on interview surveys was carried out in two phases, before (1964) and after (1968) the implementation of the sickness insurance scheme. The project was designed to analyze the basic structure of and the factors determining the use of medical services, and to estimate the changes in utilization, the cost of the scheme and illness among different population groups, and to evaluate the changes from the standpoint of the general targets of national health policy.¹

The data collected before the implementation of the scheme showed that the use of physicians' services and most other kinds of medical goods and services varied not only with awareness of illness, but also with family income, place of residence and differences in the availability of the goods and services. Consequently use of medical services depended heavily on the factors enabling the patient to obtain care, although the awareness of the need for care was by far the most important determinant of consumption². The results of the second phase of the study reflect changes which are in accordance with the targets of the sickness insurance scheme. The patterns of the use of and the need for medical care became more uniform with the introduction of the scheme — although differences still remained. The changes were most marked in those population groups where the ratio between care obtained and care needed was lowest prior to the implementation of the sickness insurance scheme, i.e., among persons with low incomes living in rural areas. The scheme

was thus quite effective in reaching its main objective, the solution of problems revolving around the use of health services and caused by differences in income.

However, only a small increase was found in the overall consumption rates for most types of medical goods. This was explained mainly by the limited availability of medical services, especially those of physicians; since the number of out-patient care units was not increased markedly when the scheme was introduced, sickness insurance could only lead to a redistribution of the services among the population groups. It was concluded that in order to better reach the targets set for the sickness insurance scheme, decisions on the supply, availability, price and financing of health services should be more closely coordinated when developing further the medical care system.

FUTURE PROSPECTS

In keeping with this conclusion, quite extensive health policy measures have already been implemented. These are the result of a new health care law that came into force in 1972. The law aims at gradually reorganizing and balancing out-patient care services in the country, and at replacing re-imbusement with direct subsidization. So far this approach has been applied only to medicines. Moreover, the sickness insurance scheme is not yet complete in two respects: it does not cover the total price of most services, and certain kinds of medical services, such as those of dentists are still outside the scheme. According to plans, the part of medical care costs directly paid by the patient will gradually be reduced, and, by the end of the present decade, the services will be free of charge for all practical purposes.

¹ The results of the first phase were published in English: Purola, T., Kalimo, E., Sievers, K. and Nyman, K., *The Utilization of the Medical Services and Its Relationship to Morbidity, Health Resources and Social Factors*; Social Insurance Institution, Helsinki, 1968. The results of the second phase will come out together with an evaluation of the scheme's effects later in 1974: Purola, T., Nyman, K., Kalimo, E., and Sievers, K., *Medical Care Use and Morbidity under National Sickness Insurance*; Social Insurance Institution, Helsinki.

² Kalimo, E., *Determinants of Medical Care Utilization*, Social Insurance Institution, Helsinki, 1969.

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SUOMEN PANKKI
KIRJASTO