

SII Annual Report

2007

KELA – A SERVICE FOR EVERYONE

KELA looks after basic security for all persons resident in Finland, through the different stages of their lives. The social security benefits it pays include minimum pensions, benefits to the handicapped, health insurance, rehabilitation benefits, basic security benefits for the unemployed, small-child care allowances, family allowances, maternity grants, student benefits, general housing allowances and conscript's allowances.

Supervised by Parliament

KELA operates under the supervision of Parliament. It has a Board that manages and develops its operations. Up to the end of 2001, all significant decisions of principle and certain appointments were made by an enlarged Board. A new Board with ten members, including the Director-General and his deputy as representatives of KELA, began operations at the beginning of 2002. The administration and operations of KELA are supervised by 12 trustees appointed by Parliament and eight auditors chosen by them.

Close to the client

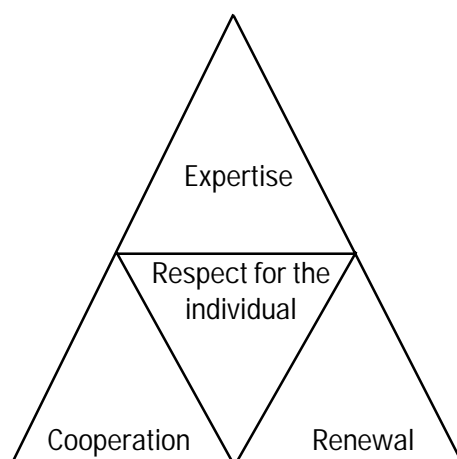
Nearly all decisions concerning the grant of social security benefits are taken at the offices of the KELA's insurance districts. Only decisions concerning disability pensions and certain decisions on financial aid for students and occupational health payments are taken by the central administration. Decisions concerning university students' applications for financial aid are taken by the universities' own financial aid committees.

Mission and values

KELA's mission statement has been modified as follows:

KELA's mission is to secure the income and promote the health of the entire nation, and to support the capacity of individual citizens to care for themselves.

KELA's operations are based on the following values:



DIRECTOR-GENERAL'S REVIEW

In 2001, KELA (The Social Insurance Institution of Finland) focused on developing its basic operating approach and the quality of its internal operations. The philosophical and ethical foundation of our work comprises our mission, vision, values and strategy, all of which were fully worked out and developed last year.

An Act on the Administration of the Social Insurance Institution was ratified in August and came into effect at the beginning of 2002. Its provisions cover the structure of the bodies within KELA and their functions. KELA is defined as an independent institution under public law. Its administration and operations are supervised by 12 trustees selected by Parliament.

The social security functions of KELA are laid down in individual acts on benefits. Under the new Act, its other functions include information provision related to benefits and services, research that serves the needs of benefit schemes and helps to develop KELA's operations, and the compilation of statistics and estimates. KELA is also required by law to draw up suggestions on how to further improve the legislation related to its operations.

Under the Act, the trustees selected by Parliament appoint a Board to take charge of and shape its operations. A representative of the KELA personnel is entitled to a seat and a voice at Board meetings.

In 2001, the amount of social security benefits paid out by KELA was almost exactly the same as the previous year in real terms, although the nominal total was 2.7% higher. Study benefits, health insurance benefits and rehabilitation benefits showed the most growth. The increase in study benefits resulted from the transfer of students from the general housing allowance scheme to a new system of student housing supplement. The total amount of benefits paid out was FIM 55.1 billion.

KELA carried out its fourth consecutive annual self-assessment and took part in the Finnish quality award competition for the public sector successfully, although we narrowly missed winning.

KELA had been making preparations for introduction of the euro for some years. Inevitably the transition caused most work for our IT personnel. All in all, changing over our IT systems required some 130 workyears, of which more than half were in 2001. The conversion of social benefits into euros at the beginning of the year went as planned. The euro project was a considerable challenge for KELA and we handled it well, for which I would like to give special thanks to everyone involved.

As in previous years, KELA offices carried out client surveys, receiving some 20 000 responses. The results showed little change compared with earlier surveys: KELA's strong suits are its competent and friendly staff, and its generous office hours. However, there is still room for improvement in making KELA's decisions, brochures and application instructions more intelligible, and in the time spent processing applications. KELA's clients value the comprehensive service network. Clients contacted KELA about 17 million times in 2001, of which 5.5 million were personal visits.

The KELA staff performed their duties well once again. They showed a good spirit of service in adapting to a growing number of increasingly complicated functions. My heartfelt thanks are due to the entire staff.

I would also like to thank our clients and partners for their understanding and encouraging attitude towards our demanding work.

Jorma Huuhtanen

KELA IN 2001

KELA paid out FIM 55.1 billion in benefits in 2001. Administrative expenses came to FIM 1.8 billion, or 3.1% of total expenditure. Income totalled FIM 57.1 billion, 53% of which came from the central government. Insurance payments covered 37% of expenditure. KELA needed FIM 2.8 billion in government liquidity guarantee payments.

Most Finns received some form of KELA benefit in 2001. Health insurance benefits were paid to 3.8 million people and unemployment benefits to 0.3 million. At year end, family allowance was paid on some 1.1 million children. The number of pension recipients, at 0.8 million at the end of the year, fell 25% on the previous year.

An act on KELA's administration, defining the structure of KELA's higher-level bodies and the functions of KELA and the bodies within it, came into effect on January 1, 2002.

The introduction of the euro at the beginning of the year went without a hitch. KELA made modifications to its IT systems throughout the year and contributed to the drafting of legislative amendments.

At year end, KELA had 333 of its own service outlets in 84 insurance districts. Of these, 264 provided a full service on every weekday. In addition, KELA also participated in 123 different shared-service projects.

KELA supplemented its existing electronic services and made preparations for introducing new services by taking part in various joint projects, such as the *Makropilotti* in Satakunta and trials with electronic prescriptions.

A set of management principles and processes for strategic planning and performance agreement procedures was adopted, to be implemented according to annual schedules.

KELA continued to develop its basic operating approach, which comprises its mission, vision, values and strategy, and is the basis for the operational and financial plan for 2002-2005. The score card and its four key perspectives were adopted as an integral part of the operational steering system. The following indicators are stressed in KELA's operating approach: the client and social impact, economics, processes, and staff and workplace renewal. KELA also

adopted personnel, communications and environmental strategies.

The quality programme was implemented for the fourth successive year through a comprehensive self-assessment of the quality of the institution as a whole. KELA also took part in the Finnish quality award competition for the public sector and non-profit corporations. As in the previous years, self-assessments were also conducted by departments, regional offices and insurance districts. Some of the development needs thus discovered in 2000 were now fulfilled in practice. An internal quality competition was launched for 2002.

The KELA client service survey was carried out as usual. KELA's services ranked third best among the participating organizations. For the second time, Suomen Gallup was commissioned to carry out a survey on KELA's image. In addition, a customer questionnaire was carried out in cooperation with the University of Helsinki Department of Social Policy. The findings were more critical than those in the client survey.

An assessment was carried out on the employees covered by the new salary system. The new system was introduced retroactively at the beginning of 2001.

At year end, the staff numbered 6,006, of whom 5,045 were full-time employees. The full pension liability for KELA staff was FIM 6.6 billion, of which 35.6% was covered.

BENEFITS PAID BY KELA ALL BENEFITS

KELA benefit payments grew nominally by 2.7% on the previous year, but in real terms the growth was only 0.1%. The total amount of benefit payments came to FIM 55 093 million.

Student benefits were up by 10.4%, health insurance benefits by 8.6% and rehabilitation benefits by 5.3%. General housing allowance expenditure decreased by 12.3% and benefits for families with children by 1.0%. The increase in student benefits was caused by the transfer of students to the housing supplement system attached to financial aid for students, while the general housing allowance expenditure lessened correspondingly.

	2001 FIM million	2000 FIM million	Change %
Pensions and disability benefits	16 937	16 699	1.4
Health insurance benefits	13 398	12 338	8.6
Rehabilitation benefits	1 410	1 340	5.3
Unemployment security benefits	6 165	6 052	1.9
Benefits for families with children ¹	10 465	10 567	-1.0
Financial aid for students	4 250	3 848	10.4
General housing allowance	2 375	2 708	-12.3
Other benefits	93	82	13.5
Total	55 093	53 634	2.7

KELA IN BRIEF

	1997	1998	1999	2000	2001
Overall expenditure, FIM billion	54.1	55.5	55.2	55.3	56.9
Benefits, FIM billion	52.5	53.0	53.5	53.6	55.1
Administration expenditure/total expenditure, %	2.9	3.0 (4.3)	3.0	3.0	3.1
Benefits/GDP, %	8.3	7.7	7.5	6.9*	6.9*
Benefits/social expenditure, %	28.2	28.2	28.0	27.3*	27.3*
Benefits/insured person, FIM/year	10 200	10 300	10 400	10 400	10 600*
Staff on December 31	5 718	5 718	5 778	5 906	6 006

* Estimate

The figure in brackets is the sum given in the financial statements, which takes account of the accelerated schedule for covering the pension liability.

NATIONAL PENSION SECURITY AND DISABILITY BENEFITS

At the start of the year, an index increase of 3.9% was made in pensions and disability benefits. At the same time, the payment of monthly national pension and spouse increases to those receiving only the old basic amount (cut national pension) was discontinued. Subsequently, as many as 245 000 out of 335 000 recipients of cut national pension received no national pension at all, and 90 000 were paid only supplements to the national pension. On June 1, 2001, the full national pension and the supplement to the surviving spouse's pension were raised by FIM 73 at most, and the front veteran's additional supplement by FIM 33 per month. Overall pension and disability benefit payments totalled FIM 16 937 million, (an increase of 1.4%).

KELA received a total of 382 000 claims for pension, pension addition, disability allowance or benefit adjustment (an increase of 6.5%). Altogether 17 500 of these were claims from abroad submitted on the basis of an EC regulation or social security conventions. 38% were claims for new pensions or disability allowances and 37% for housing allowances. KELA received 82 300 employment pension applications, or 9.0% more than in 2000.

The average processing time for pension and disability benefit claims was 48 days, one day less than the previous year. However, claims from Finland were processed in 41 days, an increase of two days on the previous year, while claims from abroad took a good five months, down two months on the 2000 figure. Almost half of the Finnish claims were processed in less than a month.

The average national pension at year end was FIM 1 704 per month, including front-veteran's supplement. The national pension of a single person entirely dependent on national pension was FIM 2 832 per month in the first municipal cost-of-living class. The average housing allowance received by pensioners was FIM 729 per month at year end.

PENSIONS AND DISABILITY BENEFITS

Pensions	2001 FIM mill.	2000 FIM mill.	Change %
Pensions paid	16 290.7	16 093.3	1.2
National pensions	15 316.5	15 109.1	1.4
Old-age pensions	10 723.5	10 894.8	-1.6
Under-65s	48.4	49.6	-2.5
Disability pensions	3 916.7	3 869.6	1.2
Individual early retirement pensions	90.7	130.3	-30.4
Unemployment pensions	287.1	281.6	2.0
Other ¹	389.2	63.1	517.0
Survivors' pensions	243.5	237.7	2.5
Front-veterans' supplements	730.6	746.6	-2.1
Other benefits	15.1	14.8	2.6

¹ Pensioners' housing allowances, pensioners' care allowances and child increases paid by KELA to people with no actual pension.

Number of pensioners	Dec.31,2001	Dec.31,2000	Change %
Pensioners, total	813 800	1 061 400	-23.3
National pension recipients	777 500	1 024 200	-24.1
Old-age pensioners	508 600	773 000	-34.2
Under-65s	3 800	3 900	-3.3
Disability pension recipients	150 100	220 600	-31.9
Individual early retirement pensions	6 900	21 700	-68.4
Unemployment pension recipients	23 900	23 000	3.6
Others ¹	94 900	7 600	
Survivors' pension recipients	36 300	37 200	-2.4

¹ The person receives only pensioners' housing allowances, pensioners' care allowances and front-veterans' supplement or child increases from KELA.

Structure of national pensions	Dec.31,2001	Dec.31, 2000	Change %
National pension recipients with national pension			
reducible by employment pensions	682 600	681 500	0.2
full national pension	111 100	115 700	-4.0
reduced national pension	571 500	565 800	1.0
cut national pension		335 000	
no actual pension, but receiving housing allowance, pensioners' care allowance, front-veterans' supplement or child increase	94 900	7 700	
National pension recipients with housing allowance	163 500	161 500	1.2
pensioners' care allowance	159 900	153 900	3.9
front-veterans' supplement	136 200	149 100	-8.6
front-veterans' additional supplement	72 900	80 200	-9.1
spouse increase	-	100	-
child increase	6 900	8 500	-18.6

Disability benefits	2001	2000	Change
Allowances paid	FIM mill.	FIM mill.	%
Child disability allowances	486.5	438.6	6.8
Disability allowances	177.6	166.9	6.4

No. of persons receiving disability benefits	Dec.31, 2001	Dec.31, 2000	Change %
Child disability allowances	46 700	46 800	-0.1
Disability allowances	12 300	12 000	2.3

NATIONAL HEALTH INSURANCE

Health insurance benefit expenditure grew by FIM 1,060 million on the previous year (8.6%). KELA paid out FIM 13,398 million in health insurance benefits. Reimbursements of medical expenses grew by 12.1% and compensation for loss of income by 5.2%. The number of people receiving health insurance benefits grew by 2.1%.

The average daily sickness allowance was FIM 238 and the daily parenthood allowance FIM 196. The means-tested daily sickness allowance was paid to 1 700 people. The employers of 19 000 people received compensation for annual leave costs.

The number of daily sickness allowances settled was 570 000 (an increase of 1.7%). The average processing time for decisions was 14 days, i.e. a day more than in 2000.

The number of payments of medical expenses compensation was 24.8 million (up 5.1%). Among these payments for medical expenses, reimbursements for medicine costs continued to grow (13.3% and FIM 538 million). The biggest growth (18.8%) was evident in the higher special reimbursement category (100%). The growth in compensations for medicine costs was partly due to extension of the reimbursement scheme to cover new, more expensive medicines, and thus is also reflected in the growing number of people receiving additional compensation for substantial medicine costs (8.2%).

The right to dental care reimbursable out of health insurance was extended at the beginning of April to cover everyone born in or after 1946. In consequence, reimbursements for dentists' fees went up considerably: expenditure increased by FIM 88 million (36.0%) on the previous year. Examination and treatment costs were the only health insurance costs to decrease (down 3.1%).

Expenditure on occupational health care totalled FIM 846 million (an increase of 7.4%). Employers received FIM 740 million and the National Student Health Services Foundation (YTHS) FIM 98 million in compensation. Private entrepreneurs and other self-employed persons were paid FIM 0.5 million in occupational health care reimbursements, while health centres received FIM 2.7 million. FIM 3.9 million was granted towards the cost of continuing studies on farmers' working conditions.

HEALTH INSURANCE BENEFITS

	2001 FIM mill.	2000 FIM mill.	Change %
All benefits 13 398.3	12 338.2	8.6	
Compensation for loss of income	6 177.6	5 872.9	5.2
Daily sickness allowance ¹	3 110.6	2 936.6	5.9
Daily parenthood allowance ²	3 067.0	2 936.3	4.4
Medical expenses compensation	6 291.7	5 614.5	12.1
Other benefits	929.0	850.8	9.2
All medical expenses compensation	6 291.7	5 614.5	12.1
Medicines	4 567.4	4 029.9	13.3
Basic compensation (50%)	1 683.5	1 565.3	7.6
75% compensation	1 293.6	1 113.0	16.2
100% compensation	1 304.1	1 097.6	18.8
Additional compensation for medicines ³	286.0	254.2	12.5
Doctors' fees	379.7	356.2	6.6
Dentists' fees	333.8	245.5	36.0
Examination and treatment	332.6	343.3	-3.1
Travel costs	678.2	639.6	6.0
Additional compensation for travel costs ³	127.6	107.0	19.2

¹ Includes daily allowances and loss-of-earnings compensation paid under the Contagious Diseases Act, as well as daily allowances paid to donors of organs or tissues.

² Includes special care compensation and compensation to employers for annual leave costs.

³ In 2001, the maximum level of personal liability for the cost of medicines was FIM 3,320 and that for travel FIM 900.

RECIPIENTS OF HEALTH INSURANCE BENEFITS

	2001	2000	Change %
All benefits 3 837 400	3 759 400	2.1	
Daily sickness allowances	301 300	296 300	1.7
Daily parenthood allowances	139 700	140 300	-0.4
Compensations for medical care	3 780 500	3 702 700	2.1
Medical expenses compensation	3 363 200	3 332 000	1.2
Basic compensation (50%)	3 217 400	3 186 700	1.0
75% compensation	778 700	758 600	2.7
100% compensation	391 200	376 300	4.0
Additional compensation for medicines	112 000	103 500	8.2
Doctors' fees	1 476 100	1 393 700	5.9
Dentists' fees	627 800	469 700	33.7
Examination and treatment	763 600	739 500	3.3
Travel costs	563 100	572 900	-1.7
Additional compensation for travel costs	33 300	29 300	13.7

REHABILITATION AND PREVENTIVE HEALTH CARE

The cost of rehabilitation went up by 5.3%, totalling FIM 1 411 million. FIM 1 133 million was spent on individual rehabilitation (an increase of 4.7%). The rehabilitation allowance accounted for FIM 250 million (an increase of 9.2%).

KELA funded the rehabilitation of 83,300 people; 16,300 of these received vocational rehabilitation for the disabled, 19,200 received medical rehabilitation for persons with severe disabilities, and the remaining 49 800 received other vocational and medical rehabilitation. The number of clients receiving rehabilitation rose by 1% on the previous year. The age groups to show the most growth in the number of rehabilitees were the under 25s and the over 64s.

Both the number of people receiving rehabilitation and the number of recipients of rehabilitation allowances rose throughout the 1990s. The growth slowed down in 2000 and 2001, however, with the benefit being paid to 54 500 persons (up 2.0%). 41 200 of recipients received their decision from KELA. Increasingly, allowances are being paid for short-term rehabilitation (such as workplace health promotion (WHP)). The average rehabilitation allowance was FIM 166 per day per person.

The Rehabilitation Services Unit

The number of rehabilitation service customers handled by the Rehabilitation Services Unit was 3 700. The number of customer days totalled 37 900, a reduction of 1.5% on the previous year.

OTHER SOCIAL BENEFITS

Unemployment security

Despite the improved employment situation, KELA's unemployment benefits expenditure grew by 1.9%, totalling FIM 6 165 million. The most important reason for this was the FIM 5 increase in the full daily allowance at the beginning of the year.

Employers who provided work for long-term unemployed were paid FIM 416 million (an increase of 8.8%) in combined subsidy, which is included in the total amount of labour market subsidy (FIM 5,493 million). As of the beginning of 2001, people who accept a permanent, full-time job outside their commuting area are entitled

to two months of labour market subsidy as travelling allowances, which totalled FIM 3.8 million.

319 000 people received unemployment benefits during the year, with benefits paid for an average of 155 days per person. Basic daily allowance was paid to 44 000 persons (up 0.7%) and labour market subsidy to 271 000 persons (down 5.3%). In addition, labour market subsidy was paid in combination with an employment subsidy to the employers of 31 000 long-term unemployed people, and integration allowance was paid to 8 600 immigrants.

Altogether 74 000 of those receiving labour market subsidy had taken part in trainee work or labour market training during the year. Of the recipients of labour market subsidy, 88 000 had received earnings-related unemployment allowance

and 80,000 the basic daily allowance for the maximum periods allowed.

The average basic daily allowance under employment security was FIM 124, while the average daily labour market subsidy was FIM 121. An adjusted daily allowance was paid for at least part of the year to 26% of basic daily allowance recipients and to 15% of those receiving labour market subsidy.

KELA took a total of 729 000 decisions on basic daily allowance and labour market subsidy (down 4.9%). The average processing time for decisions was 14 days, one day more than the previous year.

A total of FIM 143 million was granted in labour market training benefits. The number of recipients totalled 45 000 (down 12%).

OTHER BENEFITS

	2001 FIM mill.	2000 FIM mill.	Change %
Rehabilitation	1 410.5	1 339.8	5.3
Individual rehabilitation services	1 132.9	1 081.7	4.7
Rehabilitation allowance	249.6	228.6	9.2
Other expenditure	27.9	29.5	-5.4
Unemployment protection ¹	6 164.5	6 051.8	1.9
Basic unemployment allowance ²	518.2	499.2	3.8
Labour market subsidy ³	5 492.5	5 384.3	2.0
Labour market subsidy in combination with employment subsidy	415.7	381.9	8.8
Labour market subsidy as integration allowance	179.6	165.1	8.8
Labour market training	143.2	155.4	-7.8
Training support	60.2	61.6	-2.4
Compensation of maintenance and accommodation costs for those financing their studies with labour market subsidy	83.0	93.8	-11.4
Daily training allowance	8.7	10.9	-20.7
Maternity grant	55.8	52.6	6.2
Family allowance	8 181.8	8 247.1	-0.8
Child daycare subsidies ⁴	2 227.6	2 267.5	-1.8
Statutory allowance	1 953.3	2 011.5	-2.9
Municipal supplements	274.3	256.0	7.2
Student benefits	4 249.7	3 848.2	10.4
General housing allowance	2 374.6	2 707.8	-12.3
Other	77.8	67.1	15.9

¹ Includes job alternation subsidy (FIM 1.9 million in 2000 and FIM 1.9 million in 2001).

² Includes earnings-related allowances paid out by KELA to Finnish nationals seeking employment outside Finland.

³ Includes maintenance allowances paid during traineeships and rehabilitating work (as of September 1, 2001) (FIM 9.3 million in 2000 and FIM 10.4 million in 2001) and labour market subsidies paid out as travelling allowances since the beginning of 2001 (FIM 3.8 million).

⁴ Reimbursements prescribed by the previous Act have been deducted from the figures (FIM 1.2 million in 2000 and FIM 0.8 million in 2001).

Benefits for families with children

Expenditure on child daycare subsidies decreased by 1.8%. Total expenditure came to FIM 2 228 million. This sum includes FIM 1 993 million in child home care allowance, FIM 228 million in private daycare allowance, and FIM 7 million in partial care allowance. The sums include FIM 274 million in municipal supplements. Child daycare subsidies were paid to a total of 129 800 people, of which 17 700 were recipients of private daycare allowance.

Maternity grants, totalling FIM 56 million (up 6.2%) were paid to 54 000 mothers. The maternity grant was raised from FIM 760 to FIM 832 at the beginning of March. Among grant recipients, 78% chose the maternity package, while the rest took the cash grant.

Financial aid to students

Financial aid to students increased by 10.4%. Total financial aid paid to students came to FIM 4 250 million, of which study grants made up FIM 3 786 million, or 89% of the total. The increase is explained by the transfer of housing allowance recipients to the housing supplement included in financial aid for students.

At year end, 244 000 students were receiving financial aid from KELA; of these, 67 000 were at a university, 75 000 at a polytechnic, 75 000 at a vocational institution, 26 000 at an upper secondary school and 4 000 studying abroad. 113 000 students were granted a government guarantee for their student loans. At year end, the average study grant was FIM 1 200, the mature students' study grant FIM 2 200, and housing supplement FIM 900 a month.

The meals of students in higher education were subsidized by FIM 84 million, which is 3.9% more than the previous year.

Interest allowance for student loans was granted to 19,000 persons, and totalled FIM 18 million. FIM 8 million was granted in interest subsidy. Outstanding student loans at the end of the year amounted to FIM 8.8 billion. Payments made on the basis of government guarantees for student loans totalled FIM 157 million (up 9% on the previous year), including both repayments of principal and interest payments.

The average processing time for financial aid claims contracted by 6 days. The average processing time at the Student Fi-

ancial Aid Centre was 17 days, at university and polytechnic financial aid centres 9 days, and at KELA branch offices 17 days.

School transport subsidy grants were paid to a total of 64 500 students, with expenditure reaching FIM 147 million. Matkahuolto Ltd's invoicing accounted for over 64% of the total.

General housing allowance

General housing allowance expenditure decreased by 12.3%, primarily because of the transfer of students to the student housing supplement. Secondly, reasonable monthly housing expenses have fallen behind real costs. A total of FIM 2 375 million was paid out in general housing allowances. At year end, households receiving housing allowance numbered

158 500 (a decrease of 7%). At the end of the year, families with children accounted for 44%, single people for 49% and students for 9%. The proportion of unemployed has increased since 2000: in 2001, they accounted for 65% of all households receiving the benefit. The average housing allowance at year end was FIM 1 142 a month.

During the year under review, KELA took 341 000 decisions concerning general housing allowance (a decrease of 11.2%). The average processing time for claims was 30 days, which is 7 days more than in the previous year. The slowdown is partly due to the new housing allowance processing system, which was used side by side with the old system.

OTHER BENEFITS

Recipients	2001	2000	Change %
Individual rehabilitation benefits	98 300	96 000	2.3
Rehabilitation	83 300	82 500	1.0
Rehabilitation allowance	54 500	53 500	2.0
Unemployment protection			
Basic unemployment allowance or labour market subsidy	308 300	323 300	-4.6
Basic unemployment allowance	43 700	43 300	0.7
Labour market subsidy	271 300	286 600	-5.3
Labour market training	40 100	46 300	-13.4
Trainee work	32 900	34 800	-5.6
Rehabilitating work (as of September 1, 2001)	100		
Travelling allowance (as of January 1, 2001)	700		
Labour market subsidy in combination with employment subsidy	30 900	29 100	6.3
Labour market training support	4 900	5 100	-4.8
Daily training allowance	600	700	-10.1
Labour market subsidy as integration allowance	8 600	7 800	10.3
Maternity grant	54 400	55 200	-1.5
Family allowance			
Families (December 31)	580 000	586 800	-1.2
Children (December 31)	1 054 200	1 063 700	-0.9
Child daycare subsidies			
Families	129 800	130 300	-0.4
Children	201 800	204 000	-1.1
General housing allowance (households) (December 31)	158 500	170 400	-7.0
Student benefits			
Financial aid to students ¹	301 600 ¹	326 800 ²	-6.2
School transport subsidy	51 300 ¹	54 600 ²	-6.2
Conscript's allowance (households)	10 600	10 600	-0.3

¹ School year 2000/2001.

² School year 1999/2000.

³ The 'student benefit recipient' concept was changed in 2000/2001.

Other benefits

A total of FIM 67 million was paid in conscripts' allowances, which is almost 16% more than in 2000. Housing assistance showed the most growth, totalling FIM 55.6 million, whereas the number of conscripts' allowance recipients fell a little on the previous year. Of the 10 600 recipients, 8 740 were doing military service, 990 were performing non-military service and 890 were relatives.

Compensation for the rehabilitation travel expenses of front veterans came to FIM 4.6 million. Studies on farmers' working conditions were funded to a total of FIM 4.2 million and the National Centre for Agricultural Health, which operates under the Institute of Occupational Health, was reimbursed a total of FIM 1.9 million for its expenses.

OTHER OPERATIONS OF KELA

RESEARCH & DEVELOPMENT AND INFORMATION SERVICES

KELA's research and development operations were focused on public health and social security. Research information was produced and specialist projects carried out in order to improve the KELA's benefit systems, operations and customer service.

Research cooperation continued with several Finnish and international universities, research institutes and social security organizations. The KELA's research activities were presented on the R&D Centre's website in Finnish, Swedish and English.

KELA published 16 research reports in its own social security and health publications series. Reports on the social security systems of 25 countries were published as an extension to a joint project between KELA and the University of Helsinki's Institute of International Economic Law. In addition, a large number of articles were published in scientific magazines both in Finland and abroad.

KELA's information service satisfied the information needs of KELA administration and staff while also serving external users to some extent by monitoring the supply of electronic and printed information and disseminating information from different sources. During the year, it paid special attention to acquiring new electronic services. KELA's information service continued to cooperate with the information services in the administrative sector of the Ministry of Social Affairs and Health.

INTERNATIONAL COOPERATION

Work related to the application of EU legislation and agreements on social security makes up a considerable part of international operations. There were related negotiations with the social insurance institutions in the other Nordic countries, the United Kingdom, Austria and Estonia. Negotiations on social security forms were carried out with Lithuania in September.

KELA continued to cooperate with authorities and social insurance organizations in many countries. It also remained actively involved in the work of

the International Social Security Association (ISSA), the World Health Organization (WHO), the European Institute of Social Security (EISS), the Foundation for International Studies on Social Security (FISS) and the European Social Insurance Partners (ESIP). There was also some cooperation with social security research institutes in EU Member States and other countries.

The new social security agreement with Lithuania came into force in August and negotiations on an agreement with Poland were concluded in the spring. Negotiations were also conducted on the renewal of the Nordic agreement. Finland approved an act on the free movement of people between the EU and Switzerland in August. In order for this agreement to come into force, all the Member States must accept it. An act on the revised Luxembourg agreement was passed in October.

COMMUNICATIONS

KELA started revising the structure, visual appearance, maintenance principles and organization of its Internet services. About 980 000 visits were paid to the KELA website, which presented KELA's activities, including information on benefits, news, research activities and statistics.

During the year under review, KELA published four issues of *Kelan sanomat* and *FPA-bladet*. The former was sent to all Finnish households (about 2.3 million copies per issue) and the latter to Swedish-speaking households (about 180,000 copies). There were 10 issues (10,000 copies each) of the magazine *Yhteispeli* and six (18,000 copies) of *Sosiaalivakuutus*.

Media bulletins were issued and radio programmes were produced for local radio stations. KELA produced two new brochures in the *Kelainfo* series: *Kelan etuudet euroina* (KELA benefits in euros) and *Yrittäjän päiväraha* (Unemployment allowance for the self-employed). The Finnish and Swedish-language versions of the *Perusturva* brochures (8 of each) were updated, as was the English-language *A Guide To Benefits*.

KELA was represented at the *Nextstep* job and training fair in Helsinki in January, the Finnish agricultural fair *Farmariin* Kuo-

pio in August, the *Rekisterit auki* (Open the registers) event in November and the *Studia* education fair in Helsinki in December.

DATA PROCESSING

The introduction of the euro at the beginning of the year passed without a hitch. All the adjustments to operative benefit and administration applications required because of the new currency were completed on schedule. At the end of the year, a total of 131 workyears had been spent on changes related to the euro, 68 of them in 2001. Implementing legislative amendments also required considerable work and effort. Data systems were constructed in accordance with a standardized processing model.

The main legislative amendments had to do with the housing allowance norm structure, unemployment security, the cost-of-living raise in pensions, the mature students' study grant, the rehabilitation maintenance allowance and rehabilitating work. A new data system was introduced for rehabilitation. Statistical systems were updated to comply with legislative amendments and to incorporate new types of benefit. By year end, 2 908 users and 184 agreements had been entered in the system developed for KELA-related inquiries and registration of payment claims.

A diary system was introduced for the registration of administrative matters. 26 insurance districts use the electronic document management application. Preparations for electronic services and the use of data networks in benefit processing continued. All KELA computer terminals were connected to the Internet.

Extensions to the Jyväskylä computer centre were completed in August. The power of the mainframe computer was increased by some 45% in September. Facilities and equipment were improved in order to ensure uninterrupted IT operations. Transactions by computer showed an increase of 188 million on the previous year (over 21%), totalling 1 057 million. At the end of the year, there were 6 106 computer terminals connected to the national data network.

STATISTICS AND CALCULATIONS

The statistical databases were expanded. Development of indicators on office operations continued and analysis of statistical materials was expanded. New statistical bulletins were added to the statistical information available on the Internet. The work on statistical architecture was continued by exploring alternative ways of developing the KELA's statistics and other information production.

Publications produced during the year included the KELA statistical yearbook, the quarterly statistical review, pocket statistics published in five languages, eight annual statistical reviews and one separate statistical booklet on Finnish health care expenditure. A total of 20 statistical publications and 56 statistical bulletins were produced. Together with the Central Pension Security Institute, KELA published two volumes on overall Finnish pension benefits and, with the National Agency for Medicines, a statistical publication on the use of pharmaceuticals in Finland. Some of the printed statistical publications were also published on the Internet.

Forecasts and funding calculations were produced for social security budgeting and to ensure liquidity. Last year, KELA drew up its first forecast on trends in KELA payments in individual insurance regions, reaching up to 2005. Estimates on the financial effects of reforms were drawn up for the Social Expenditure Committee, the working group on housing allowance harmonization and several other social security development projects. The calculation formulae for all benefits were checked in preparation for the introduction of the euro.

CUSTOMER SERVICES AND THE SERVICE NETWORK

At year end, the KELA's five insurance regions comprised altogether 84 insurance districts, each with one or more branch office open daily and providing the full range of services. There were 333 branches in different parts of Finland providing client services; 264 of these were full-service offices with daily office hours, while 69 were sub-offices with restricted office hours. KELA was also involved in 123 shared-service projects.

KELA offices on December 31, 2001

Insurance region	Full-service offices	Sub-offices	Offices total
Northern Finland	43	19	62
Western Finland	43	13	56
Eastern Finland	56	17	73
Southwestern F.	52	14	66
Southern Finland	70	6	76
Total	264	69	333

The offices had about 17 million contacts with clients in 2001, including contacts by post or telephone. Personal visits accounted for about one third of all client contacts. There was an increase in client contacts using the Internet, and KELA took part in various projects on developing electronic services.

PERSONNEL

At year end, KELA had a total of 6,006 employees, 100 more than a year earlier. The number of staff at branch offices increased by 76, at regional offices by 1, and central administration staff by 23.

At year end, there were 5 045 full-time employees (an increase of 58 on 2000); 4 582 of these were permanent members of staff (an increase of 30), and 463 fixed-term employees (an increase of 28). There were 887 part-time permanent staff (an increase of 44) and 74 part-time fixed-term employees (a decrease of 2).

KELA's full-time (permanent and fixed-term) employees

	Dec.31, 2001	Dec.31, 2000
Central administration	1 263	1 244
Regional offices	208	207
Branch offices	3 574	3 536
Total	5 045	4 987

KELA's human resource strategy for 2005 was ratified in January.

As per agreement, a new salary system based on the demands of the work and personal performance was introduced on January 1, 2001. 1 150 employees transferred to the new system directly. When the transition was made, 2 530

employees suffered from a 'table deficit', i.e. needed a further pay rise. The salaries of 1 070 employees remained unchanged. Salaries in accordance with the new system were paid retroactively on September 1, 2001.

Since January 1, 2002, the employment relationships of KELA employees have been subject to the Employment Contract Act, which is why KELA and the KELA staff union agreed on December 17, 2001 to change from the former public-sector collective agreement to a general collective agreement under the said Act.

All individual workplaces have workplace health promotion (WHP) groups that plan and implement WHP activities. The KELA's Personnel Section completed an overall plan for WHP management.

Group measures included workplace community groups, group workouts, special courses, fitness improvement courses and ASLAK (vocationally oriented medical rehabilitation) courses for a total of 449 persons. The early rehabilitation working group made 76 individual decisions for various rehabilitation measures. A total of 525 people took part in early rehabilitation measures.

In 2001, 73 KELA staff members retired on old age pension, 57 took individual early retirement or disability pension, 81 took part-time pension and 33 took partial disability pension.

TRAINING

A total of 607 training courses were held during the year (585 in 2000). These were attended by 13 571 people (14 246), making for 18 490 person-course days (19 232). In addition, various units organized training locally. Employees also participated a total of 1 380 times in courses arranged externally (1 110).

Further vocational training focused on benefits. To ensure expertise, a large amount of basic and supplementary training was arranged on matters related to benefits, and KELA also continued to produce complementary training packages. 2001 saw the completion of such information packages on unemployment security, student financial aid and disability benefits.

Staff training concentrated on quality. Supervisors, quality contact persons and

other staff were given basic information on the European quality award criteria and its use in the self-assessment of operations. Preparatory training was arranged for insurance districts adopting the electronic document management system in 2002.

The supply of IT training was diversified, focusing on terminal, main frame and browser programs, for example, and on supplementary vocational training for IT professionals.

KELA, the University of Turku, Åbo Akademi University and the Central Pension Security Institute started planning TOPSOS, the Social Insurance Expert Training Programme, as a joint project. This is a post-graduate training programme for top social insurance experts starting in March 2002.

FINANCIAL STATEMENTS

OPERATING REPORT BY THE BOARD OF DIRECTORS

Developing internal operations

In 2001, KELA operations focused on developing strategy and improving quality. The Board of Directors took the lead in assimilating KELA's institutional values: respect for the individual, expertise, cooperation and renewal. The basic operating approach was also

comprehensively updated.

KELA's operations are run and evaluated by four indicators.

Under guidance from members of the Board, KELA carried out its fourth consecutive self-assessment. Its entry in the Finnish quality award competition was a by-product of the self-assessment process. KELA did so well in the competition (351 out of 400 points) that the assessors paid a visit to KELA to supplement the information on the entry. KELA received a feedback report from the assessors and has already begun to carry out their suggested improvements.

All units with a performance agreement aimed to carry out a self-assessment of operations, and about 90% of them did so. The themes of quality work were the development of quality yardsticks and the introduction of service charters. The criteria of the European quality award were used in the self-assessments. On the basis of the previous year's self-assessments, development foci included management principles, strategic planning and the performance agreement procedure, development of processes, justification of decisions and the intelligibility of application forms and instructions.

Research focused on issues central to the improvement of KELA benefit systems and services. Monitoring of

Strategic result-management indicators

Indicator	Goal	Success factor
1. Client and social impact	We ensure the income security of the Finnish people and face up to our social responsibilities.	- Service orientation - Accessibility of services - Competitiveness and public image
2. Economy	We safeguard our liquidity and produce services at a competitive price	- Influence on legislation - Liquidity - Efficient and economical use of resources
3. Processes	Our processes are efficient, effective and controlled. We serve our customers quickly and flawlessly.	- Process performance - Operating speed - Consistency and correctness of benefit decisions
4. Staff and the workplace's capacity for renewal	Ours is a well-run and constantly self-renewing workplace community which respects the individual.	- Management - A well-functioning workplace community - Expertise - Working capacity

operations and system productivity was expanded, the need for and problems in social security were surveyed, and changes in public wellbeing were assessed from the perspective of social security.

Electronic document management will be expanded and be in use across the entire country by 2004.

Funding

Overall KELA expenditure came to FIM 56.9 billion. This comprises FIM 55.1 billion in benefits and FIM 1.8 billion in operating expenses. The total figure was up a good FIM 1.5 billion on 2000.

Total income came to FIM 57.1 billion, up FIM 1.7 billion on 2000. This includes FIM 2.8 billion in government liquidity guarantee payments to the national health insurance (NHI) fund.

Insurance contributions accounted for 37% of total income. Government contributions accounted for 53% and those from municipalities for 4%. The remaining 6% comprised revenues from value added tax and payments by the motor and accident insurance institutions, plus yield on assets and money recovered on account of non-primary liability.

Investments

The provisions on KELA's investment operations laid down in the National Pensions Act and the Sickness Insurance Act were amended and transferred to the new act on the administration of the Social Insurance Institution that entered into force at the beginning of 2002.

KELA adopted a set of general investment principles and an investment plan for 2001. It set the following targets for its investments: security, profit, cash convertibility, adequate diversity and spread. Account must also be taken of the nature and purpose of the national pension insurance (NPI) fund, the national health insurance (NHI) fund and the pension liability fund, and the requirements these set for investment activities.

KELA's benefit expenditure is paid out of the NPI and NHI funds. Investment operations focus on investing liquid assets. Currently, the NPI fund has long-term shareholdings in what are regarded as

economically and nationally important companies.

The assets of the pension liability fund cover KELA's liability for staff pensions. The fund's assets are invested according to the principles of portfolio investment. Until 2010, while the fund is being augmented, the first aim for its asset allocation is to increase returns and the second to secure the easy cash convertibility of assets in preparation for a later stage in the fund's development. A set of goals and a schedule have been set for international diversification of investments.

As in the previous year, the trend on the Finnish stock market remained negative in 2001. Nonetheless, the total market value of KELA shares was slightly higher than in 2000, at FIM 5.23 billion (FIM 5.18 billion in 2000). This was primarily the result of good price trends in the NPI fund's investments in basic industry equities. The market value of the pension liability fund's shares was FIM 2.81 billion at the end of 2001 (FIM 3.12 billion in 2000).

Dividend yields rose to FIM 207 million (FIM 144 million in 2000), and the average interest on current assets to 4.31% (4.03%). Interest yields totalled FIM 123 million (FIM 94 million), and interest income grew 30.5%.

Funding national pension insurance

National pension insurance (NPI) expenses totalled FIM 17.7 billion, and income FIM 18.6 billion. Of total NPI income, 50% derived from contributions paid by employers, 36% from government contributions, 13% from value added tax revenues and 1% from yields on assets.

The government financed 29% of NPI expenditure, as well as 100% of disability and child care allowances, survivors' pensions, front-veterans' benefits and housing benefits for pensioners.

In order to ensure liquidity over the year, the NPI fund must preserve a certain minimum level, defined on the basis of current assets. In 2001, the minimum level of current assets was exceeded and the excess of FIM 0.8 billion was transferred to the NHI fund.

Funding national health

insurance and rehabilitation

Total national health insurance expenditure in 2001 was FIM 15.9 billion, of which rehabilitation costs were FIM 1.4 billion. Income for the year, excluding the government liquidity guarantee payment and funds transfer, amounted to FIM 12.4 billion; most of this (FIM 11.7 billion) derived from contributions by the insured and employers. In 2001, the government financed minimum daily parental allowances. In addition, payments by motor and accident insurance institutions were channelled into the NHI fund. Income also comprised yield on assets and money recovered on account of non-primary liability.

In order to ensure liquidity over the year, the NHI fund must maintain a certain minimum level. In 2001, KELA's income plus the FIM 0.8 billion transferred from the NPI fund were still not sufficient to achieve this minimum. FIM 2.8 billion was therefore paid by the government in liquidity guarantees.

Funding other social security

Other social security comprises unemployment security benefits, family allowances, the child care allowance, the maternity grant, student benefits, the general housing allowance and the conscript's allowance. Other benefit payments totalled a good FIM 23.3 billion.

The government funded FIM 20.8 billion of other social security expenditure. The municipalities paid a total of FIM 2.2 billion to cover the costs of child daycare. The remaining FIM 0.3 billion was derived from wage earners' unemployment insurance contributions.

Administration expenses

Administration expenses totalled FIM 1,758 million, up 5.3% on the previous year. Out of this sum, wages and salaries accounted for FIM 842 million, an increase of 5.4% on the previous year.

Staff-related costs comprised contributions to cover employment pension liability, and statutory and voluntary contributions to staff-related costs. Staff-related costs totalled FIM 242 million, up 8.8% on the previous year.

Administrative expenses also include

FIM 412 million in other expenses, up 2.3% on the previous year. The main items under 'Other expenses' are IT costs, costs related to premises and certain income items which reduce administrative expenses. Purchased services came to FIM 261 million, comprising mainly tax costs paid to the tax administration.

Pension liability fund

KELA's actuarial liability for staff pensions totalled FIM 6 622 million at the end of the year, with expenditure on current pensions accounting for FIM 2 395 million. The full pension liability increased by FIM 328 million in 2001, due to pay and pension rises and an increase in pension accrual.

Under new regulations that came into force at the end of 1998, 41% of the total pension liability must be covered by the end of 2010. Much of the new cover requirements were already met in 1998 and 1999. At the end of 2001, the coverage was 35.6%. During the year under review, FIM 21.2 million was transferred to the fund in sales profits from the pension liability fund and 34.6 million in other yields from the fund.

FIM 80 million in employer contributions was paid into the pension liability fund. In addition, employee contributions amounted to FIM 39 million, FIM 11 million of which was used to cover pension liability. Pension payments totalled FIM 217 million.

EMPLOYERS' INSURANCE

PAYMENT CRITERIA

% of wages subject to withholding tax

National pension insurance

	2000	2001	2002
Private sector ¹			
Class I contributions	2.40/2.00 ²	4.00	2.00/1.35 ³
Class II contributions	4.00	4.00	4.00/3.55
Class III contributions	4.90	4.90	4.90/4.45

Public sector

Central Government and Åland	3.95	3.95	3.95
Municipalities and the Church	3.15	3.15	3.15/2.4

Health insurance

Private sector	1.60	1.60	1.60
Public sector			
Central Government and Åland	2.85	2.85	2.85
Municipalities and the Church	1.60	1.60	1.60

¹ Contribution class is determined on the basis of depreciations recorded by the company and the ratio of depreciations to wages.

² As of July 1, 2000.

³ As of March 1, 2002

HEALTH INSURANCE PAYMENT CRITERIA FOR THE INSURED

Pennies per tax unit in municipal taxation (in 2002 as % of earnings)

	2000	2001	2002
On earned income	1.50	1.50	1.50
Extra payment collected on pension income	1.70	1.20	0.40

Outlook for 2002 and beyond

Operating approach

KELA's strengths include its skilled staff, its comprehensive service network, a range of different service forms it offers and its reliable information technology. These will enable us to arrange new services in the future, too.

In order to ensure overall success, KELA operations are run according to four indicators and the goals and success factors set for them.

The client and social impact

We respect our clients, providing friendly service, guidance and help.

The comprehensive KELA service network ensures the availability of our services to clients throughout Finland. In order to keep the network viable, KELA is developing new forms of service and distributing work more evenly. We are also establishing shared-service units to supplement our branch office network. Cooperation with other organizations will be increased and KELA will take part in joint project trials.

As an alternative to personal service, we provide electronic services and self-service programs. Clients can also be served over the telephone or by post. KELA takes account of the fact that ability and opportunities for using new technology vary greatly from client to client. Our office hours are suited to our clients' needs. We assess the quality of our customer service and internal operations regularly. Service charters will be introduced. We take care of data security in all our operations.

KELA disseminates information on its services and operations via a wide range of channels. We seek to ensure that our message reaches its intended recipient.

KELA takes an active part in the development of Finnish social security, always stressing the client's point of view, social policy aspects and the need to clarify the legislation. We assess the impact of legislative amendments and the shortcomings of social security.

Economics

KELA strives to handle its financial affairs efficiently. Our operations are funded out of insurance payments, employer

contributions and public sector contributions. We seek to establish a systematic and sustainable basis for our funding, and to ensure our liquidity and the security and yields of our investments. KELA's investments are diversified and adequately spread. We are in the process of developing an activity-based accounting system as a strategic management tool.

In 2002, KELA's total income and expenditure are expected to increase by just under two per cent on the 2001 level in real terms. It is estimated that the NPI and NHI funds will need about EUR 620 million (FIM 3.7 billion) in government liquidity guarantees.

In real terms, the benefit costs of national pension insurance are expected to remain unchanged in 2002, but to take a downward turn after that. In the case of health insurance benefits, in particular daily sickness allowance and drug reimbursements are expected to grow in real terms in the next few years. Unemployment benefit expenses will increase in 2002 and 2003 because of the increases made in the benefits, but will probably start decreasing after that. Other social security costs are expected to continue to fall, unless benefits increase more rapidly than the price level. The proportion of total expenditure represented by administrative expenses will remain at last year's level.

The proportion of insurance contributions in the funding of expenses will continue to fall as the bases for charges payable are lowered for both employers and the insured. Employers' national pension contributions and health insurance payments collected from the insured's pension income were reduced in 2002. In order to secure funding, KELA's share of income from value-added tax was increased in 2002. The need for government liquidity guarantees will continue to grow in the next few years.

Processes

KELA strives to deal with matters swiftly, correctly and uniformly. Decisions will be made more intelligible. We seek to prevent fraud, and take measures to this end in advance.

KELA seeks to improve the efficiency and flexibility of its internal operations and to make its procedures uniform. Benchmarking comparisons will be made

between our processes and best practices.

Staff and workplace renewal

KELA seeks to improve its management skills and systems, making them more motivating and interactive. We safeguard the skills, working capacity and welfare of our staff. Job satisfaction is maintained by constantly improving the supervision and content of work and the smooth functioning of the workplace environment. KELA safeguards the continuity of skills and knowledge by means of training, induction and new recruitment. KELA seeks to keep its work load and staff capacity in balance.

The major targets for development to emerge from the feedback report on the Finnish quality award competition in 2001 comprised:

1. Management and operating approaches
2. Customer service
3. Cooperation with stakeholders
4. Processes and tools
5. Competence of staff and the organization as a whole
6. Assessments, indicts and results