

kela



**SII Annual Report
2002**

KELA – A SERVICE FOR EVERYONE

The Social Insurance Institution (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 maoperates under the supervision of Parliament. It has a Board of Directors 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 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

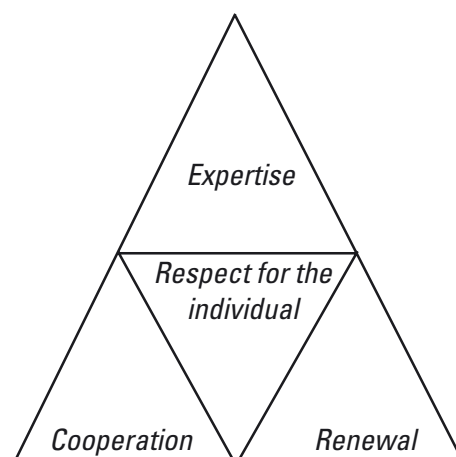
Nearly aall decisions concerning the grant of social security benefits are taken at the offices of KELA's insurance districts. Only decisions concerning disability pensions and certain decisions on financial aid for students and occupational health payments are taken by the central administration. Decisions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

Mission and values

KELA's mission statement:

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 operations are based on the following values:



KELA IN 2002

On December 16, KELA celebrated its 65th anniversary. To mark the occasion, all customers were served coffee at KELA offices.

KELA paid out EUR 9.7 billion in benefits in 2002. Administrative expenses came to EUR 314 million, or 3.1% of total expenditure. Income totalled EUR 10.0 billion, 54% of which came from the central government. Insurance payments covered 34% of expenditure. KELA needed EUR 650 million in government liquidity guarantee payments.

Most Finns received some form of KELA benefit in 2002: Health insurance benefits were paid to 3.8 million people. At year end, family allowance was paid on about 1 million children. The number of pension recipients at the end of the year was 800,000. Unemployment benefits were paid to 315,000.

The Act on the Social Insurance Institution, which defines 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. KELA's new internal regulations defining the structure of the new central administration organization, for instance, came into effect on September 1.

Development focused on systematic management practices, appraisal interviews and incentive schemes, and electronic document management and transfer. Planning seminars held in the spring and autumn produced policy principles for the next few years, derived from strategic starting-points.

At year end, KELA had 328 of its own service outlets in 82 insurance districts. Of these, 263 provided a full service on every weekday. In addition, KELA also participated in 127 different shared-service projects.

KELA also made preparations for introducing new electronic services by taking part in various joint projects, such as a trial with electronic prescriptions.

The quality programme was implemented for the fifth successive year through a comprehensive self-assessment of the quality of the Institution as a whole. Similar self-assessments on a lower scale were carried out in KELA departments, regional offices and insurance districts, as in previous years. KELA held its second internal quality competition, with 13 units participating. The winner of the competition was the computer centre, while the Pielisen-Karjala insurance district earned an honourable mention. KELA also launched a total of 15 peer-reviewed benchmarking projects in cooperation with external organizations.

A KELA client service survey was carried out as in previous years, receiving an overall grade of 8.4 on a scale of 4 to 10. In addition, Suomen Gallup was commissioned to carry out a survey on KELA's public image and a poll among stakeholders. The results of both surveys show that KELA's public image has improved significantly.

At year end, the staff numbered 6,124, of whom 5,102 were full-time employees. The full pension liability for KELA staff was EUR 1.2 billion, of which 28.4% was covered.

BENEFITS PAID BY KELA**ALL BENEFITS**

KELA benefit payments grew nominally by 4.4% on the previous year; in real terms, the increase was only 2.8%. The total amount of benefit payments came to EUR 9.7 billion.

Rehabilitation benefits increased by 12.2%, health insurance benefits by 9.7%, unemployment security benefits by 9.6% and general housing allowance by 3.3%. Benefits paid to families with children declined by 0.8% on 2001.

	2002 EUR million	2001 EUR million	Change %
Pensions and disability benefits	2 900,1	2 848,6	1,8
Health insurance benefits	2 471,3	2 253,4	9,7
Rehabilitation benefits	266,3	237,2	12,2
Unemployment security benefits	1 135,9	1 036,8	9,6
Benefits for families with children ¹	1 746,8	1 760,1	-0,8
Financial aid for students	726,6	714,7	1,7
General housing allowance	412,7	399,4	3,3
Other benefits	17,3	15,6	10,7
Total	9 677,0	9 265,9	4,4

¹ Daily parenthood allowances are included in the health insurance benefits.

KELA IN BRIEF

	1998	1999	2000	2001	2002
Overall expenditure, EUR billion	9,3	9,3	9,3	9,6	10,0
Benefits EUR billion	8,9	9,0	9,0	9,3	9,7
Administration expenditure/total expenditure,%	3,0 (4,3)	3,0	3,0	3,1	3,1
Benefits/GDP,%	7,7	7,5	6,9*	6,8*	7,0*
Benefits/social expenditure,%	28,2	28,0	27,3	26,6*	26,4*
Benefits/insured person, EUR/year	1 729	1 741	1 741	1 784	1 859
Staff on December 31	5 718	5 778	5 906	6 006	6 124

* 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 2.4% was made in pensions and disability benefits and payments; also, child increases were readopted. Overall pension and disability benefit payments totalled EUR 2,900 million, which was an increase of EUR 52 million (1.8%) on the previous year.

The number of pension recipients went down 0.4% and the number of recipients of child care allowance 11.3%. At the end of the year, there were 811,000 pension recipients and 41,000 recipients of child care allowance. Because of the introduction of diet allowance on October 1, 2002, the number of people receiving disability allowance increased by 64.0% to 20,000 by the end of the year. Diet allowance is paid to people who must not eat anything containing gluten.

KELA received a total of 408,000 claims for pension, pension addition, disability allowance or benefit adjustment (an increase of 6.8%). Altogether 20,000 of these were claims from abroad submitted on the basis of an EC regulation or social security

conventions. 35% were claims for new pensions or disability allowances and another 35% for housing allowances. KELA received 82,350 employment pension applications, or 0.1% more than in 2001.

The average processing time for pension and disability benefit claims was 48 days, the same as the previous year. However, claims from Finland were processed in 44 days, an increase of two days on the previous year, while claims from abroad took five months, which was less than in 2001. Almost half of

the Finnish claims were processed in less than a month.

The average national pension at year end was EUR 288 per month, including front-veteran's supplement. The national pension of a single person entirely dependent on national pension was EUR 488 per month in the first municipal cost-of-living class. The average housing allowance received by pensioners was EUR 128 per month at year end.

DISABILITY BENEFITS

Disability benefits	2002	2001	Change
Allowances paid	EUR mill.	EUR mill.	%
Child disability allowances	76,2	78,8	-3,3
Disability allowances	31,9	29,9	6,9
No. of persons receiving	Dec.31,2002	Dec.31,2001	Change %
Child disability allowances	41 500	46 700	-11,3
Disability allowances	20 200	12 300	64,0

PENSIONS

Pensions	2002	2001	Change
	EUR mill.	EUR mill.	%
Pensions paid	2 792,0	2 739,9	1,9
National pensions	2 635,7	2 576,1	2,3
Old-age pensions	1 821,3	1 803,6	1,0
Under-65s	8,1	8,1	-0,9
Disability pensions	690,6	658,7	4,8
Individual early retirement pensions	13,0	15,2	-14,6
Unemployment pensions	50,4	48,3	4,4
Other ¹	73,5	65,5	12,2
Survivors' pensions	40,6	41,0	-0,9
Front-veterans' supplements	115,7	122,9	-5,9
Other benefits	2,8	2,5	9,5

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

Number of pensioners	Dec.31,	Dec.31,	Change %
Pensioners, total	810 900	813 800	-0,4
National pension recipients	775 400	777 500	-0,3
Old-age pensioners	504 200	508 600	-0,9
Under-65s	3 600	3 800	-5,4
Disability pension recipients	150 900	150 100	0,5
Individual early retirement pensions	5 600	6 900	-18,1
Unemployment pension recipients	23 700	23 900	-0,8
Others ¹	96 600	94 900	1,8
Survivors' pension recipients	35 500	36 300	-2,2

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, 2002	Dec.31, 2001	Change %
National pension recipients with national pension reducible by employment pensions	678 800	682 600	-0,6
- full national pension	106 500	111 100	-4,1
- reduced national pension	572 300	571 500	0,1
no actual pension, but receiving housing allowance, pensioners' care allowance, front-veterans' supplement or child increase	96 600	94 900	1,8
- housing allowance	164 300	163 500	0,5
- pensioners' care allowance	168 600	159 900	5,4
- front-veterans' supplement	124 700	136 200	-8,4
- front-veterans' additional supplement	66 000	72 900	-9,5
- child increase	11 900	6 900	72,2

NATIONAL HEALTH INSURANCE

Health insurance benefit expenditure grew by EUR 218 million on the previous year (9.7%). KELA paid out EUR 2,471 million in health insurance benefits. The number of people receiving health insurance benefits grew by 0.3%.

Reimbursements of medical expenses grew by 10.2%. Compensation for loss of income included daily parenthood allowance, which increased by 3.8%, and daily sickness allowance, up 15.4%. According to a study done in the autumn of 2002, the considerable increase in payment in daily sickness allowance offset the slacker trend in 2001, which had been partly due to the doctors' strike in the spring. The growth in the number of recipients of daily sickness allowance and the number of days on which the allowance was calculated seemed to derive from the ageing of the population, the minimum daily allowance introduced at the beginning of April and a variety of screening and action programmes focusing on long-term unemployed customers and customers living on income support.

The average amount of daily sickness allowance was EUR 41 and daily parenthood allowance EUR 35. Under an amendment of the Sickness Insurance Act on April 1, 2002, payment of means-tested daily allowance was abolished and replaced by daily sickness allowance of at least a minimum amount to persons incapable of working for at least 55 consecutive days. This minimum daily allowance was paid to 4,900 people in 2002. Holiday pay for employees was reimbursed

to employers of a total of 18,800 people.

The number of daily sickness allowances settled was 610,000 (an increase of 7.0%). The average processing time for claims was 14 days, i.e. the same as in 2001.

The number of payments of medical expenses compensation was 25.5 million (up 2.8%). Among these payments for medical expenses, reimbursements for medicine costs continued to grow (11.9% and EUR 91 million). The biggest increase (13.4%) 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 (10.2%).

The right to dental care reimbursable out of health insurance, which has been extended to more and more age groups over the years, now covers the entire population. In consequence, reimbursements for dentists' fees went up considerably: expenditure increased by EUR 9 million (15.6%) on the previous year. Examination and treatment costs reimbursed from health insurance continued to decrease (down 1.3%).

Expenditure on occupational health care totalled EUR 154 million (an increase of 8.5%). Employers received EUR 135 million and the National Student Health Services Foundation (YTHS) EUR 18 million in compensation. Private entrepreneurs and other self-employed persons were paid EUR 0.2 million in occupational health care

reimbursements, while health centres received EUR 0.5 million. EUR 0.6 million was granted towards the cost of continuing studies on farmers' working conditions.

REHABILITATION

The cost of rehabilitation went up by 12.2%, totalling EUR 266.3 million. EUR 212 million was spent on individual rehabilitation (an increase of 11.3%). The rehabilitation allowance accounted for EUR 49.3 million (an increase of 17.7%).

KELA funded the rehabilitation of 87,000 people; 16,700 of these received vocational rehabilitation for the disabled, 20,000 received medical rehabilitation for persons with severe disabilities, and the remaining 52,700 received other vocational and medical rehabilitation. The number of clients receiving rehabilitation rose by 4.5% on the previous year. The age group to show the most growth in the number of rehabilitees was 16-24.

Rehabilitation allowance was paid to 58,700 persons (up 7.6%). 43,015 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 EUR 27.2 per day per person.

Rehabilitation Services Unit

The number of rehabilitation service customers handled by the Rehabilitation Services Unit was 3,700. The number of customer days totalled 39,400, an increase

HEALTH INSURANCE BENEFITS

	2002	2001	Change
	EUR mill.	EUR mill.	%
All benefits	2 471,3	2 253,4	9,7
Compensation for loss of income	1 139,1	1 039,0	9,6
Daily sickness allowance ¹	603,6	523,2	15,4
Daily parenthood allowance ²	535,5	515,8	3,8
Medical expenses compensation	1 166,4	1 058,2	10,2
Other benefits	165,8	156,2	6,1
All medical expenses compensation	1 166,4	1 058,2	10,2
Medicines	859,4	768,2	11,9
Basic compensation (50 %)	319,6	283,1	12,9
75% compensation	236,9	217,6	8,9
100% compensation	248,6	219,3	13,4
Additional compensation for medicines ³	54,2	48,1	12,6
Doctors' fees	64,6	63,9	1,1
Dentists' fees	64,9	56,1	15,6
Examination and treatment	55,2	55,9	-1,3
Travel costs	122,3	114,1	7,2
Additional compensation for travel costs ³	23,4	21,5	9,2

RECIPIENTS OF HEALTH INSURANCE BENEFITS

	2002	2001	Change
			%
All benefits	3 848 200	3 837 400	0,3
Daily sickness allowances	320 900	301 300	6,5
Daily parenthood allowances	139 900	139 700	0,1
Compensations for medical care	3 789 700	3 780 500	0,2
Medical expenses compensation ³	3 353 800	3 363 200	-0,3
Basic compensation (50%)	3 205 900	3 217 400	-0,4
75% compensation	795 300	778 700	2,1
100% compensation	406 200	391 200	3,8
Additional compensation for medicines	123 400	112 000	10,2
Doctors' fees	1 483 000	1 476 100	0,5
Dentists' fees	706 200	627 800	12,5
Examination and treatment	762 800	763 600	-0,1
Travel costs	571 400	563 100	1,5
Additional compensation for travel costs	36 000	33 300	8,0

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 2002, the maximum level of personal liability for the cost of medicines was EUR 594.02 and that for travel EUR 157.26.

of 4.1% on the previous year. The Rehabilitation Services Unit was converted into a company within KELA on January 1, 2003.

OTHER SOCIAL BENEFITS

Unemployment security

KELA's unemployment benefits expenditure grew by 9.6%, totalling EUR 1,136 million. The most important reason for this was the EUR 0.55 increase in the full daily allowance at the beginning of the year and the EUR 0.84 increase on March 1. In labour market subsidy, child increases were brought up to the same level as those in basic daily allowance.

Employers who provided work for long-term unemployed were paid EUR 82 million (an increase of 17.3%) in combined subsidy and immigrants were paid EUR 37 million in integration allowance (an increase of 23.6%).

315,000 people received unemployment

benefits during the year, with benefits paid for an average of 156 days per person. Basic daily allowance was paid to 47,000 persons (up 6.7%) and labour market subsidy to 263,000 persons (down 3.1%). In addition, labour market subsidy was paid as combined subsidy to the employers of 32,000 long-term unemployed people, and integration allowance was paid to 9,000 immigrants. Labour market subsidy for rehabilitating work experience was paid to 2,000 people.

Altogether 73,000 of those receiving labour market subsidy had taken part in trainee work, labour market training or other activities under labour market policy programmes during the year. Of the recipients of labour market subsidy, 86,000 had received earnings-related unemployment allowance and 76,000 the basic daily allowance for the maximum periods allowed.

The average basic daily allowance under employment security was EUR 22.00, while the average daily labour market subsidy was EUR 23.10. An adjusted daily allowance was paid for at least part of the year to 26% of

basic daily allowance recipients and to 18% of those receiving labour market subsidy.

KELA took a total of 738,000 decisions on claims for basic daily allowance and labour market subsidy (down 1.2%). The average processing time was 7 days, as in the previous year.

A total of EUR 31 million was granted in labour market training benefits. The number of recipients totalled 45,000.

Benefits for families with children

Expenditure on child daycare subsidies decreased by 0.9%. Total expenditure came to EUR 371 million. This sum includes EUR 330 million in child home care allowance, EUR 40 million in private daycare allowance, and EUR 1 million in partial care allowance. Municipal supplements amount to EUR 50 million. Child daycare subsidies were paid to a total of 128,800 people, 17,500 of whom were recipients of private daycare allowance.

Maternity grants totalling EUR 10 million (up 2.8%) were paid to 55,100 mothers. Among grant recipients, 77% chose the

OTHER BENEFITS

	2002	2001	Change
	EUR mill.	EUR mill.	%
Rehabilitation	266,3	237,2	12,2
Individual rehabilitation services	212,0	190,5	11,3
Rehabilitation allowance	49,4	42,0	17,7
Other expenditure	4,8	4,7	2,9
Unemployment protection ¹	1 135,9	1 036,8	9,6
Basic unemployment allowance ²	98,7	87,2	13,2
Labour market subsidy ³	1 003,0	923,8	8,6
Labour market subsidy as combined subsidy	82,0	69,9	17,3
Labour market subsidy as integration allowance	37,3	30,2	23,6
Labour market training	31,4	24,1	30,2
Training support	12,3	10,1	21,2
Compensation of maintenance and accommodation costs for those financing their studies with labour market subsidy	19,1	14,0	36,9
Daily training allowance	2,5	1,5	73,9
Maternity grant	9,6	9,4	2,8
Family allowance	1 366,0	1 376,1	-0,7
Child daycare subsidies ⁴	371,2	374,7	-0,9
Statutory allowance	321,1	328,5	-2,3
Municipal supplements	50,0	46,1	8,5
Student benefits	726,6	714,7	1,7
General housing allowance	412,7	399,4	3,3
Other	14,5	13,1	11,0

¹ Includes job alternation compensation (EUR 0.3 million in 2001 and EUR 0.3 million in 2002).

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

³ Includes maintenance allowances paid during traineeships or coaching for working life and during rehabilitating work (EUR 1.7 million in 2001 and EUR 6.9 million in 2002) and labour market subsidies paid out as travelling allowances (EUR 0.6 million in 2001 and EUR 0.8 million in 2002).

⁴ Reimbursements prescribed by the previous Act have been deducted from the figures (EUR 0.1 million in 2001 and EUR 0.1 million in 2002).

OTHER BENEFITS: Recipients

	2002	2001	Change
			%
Individual rehabilitation benefits	104 200	98 300	6,1
Rehabilitation	87 000	83 300	4,5
Rehabilitation allowance	58 700	54 500	7,6
Unemployment protection			
Basic unemployment allowance or labour market subsidy	303 200	308 400	-1,7
Basic unemployment allowance	46 600	43 700	6,7
Labour market subsidy	263 000	271 400	-3,1
Labour market training	40 200	40 100	0,4
Trainee work/Coaching for working life	33 600	32 900	2,6
Rehabilitating work (as of September 1, 2001)	2 000	100	.
Travelling allowance	900	700	18,7
Labour market subsidy as combined subsidy	32 300	30 900	4,6
Labour market training support	5 200	4 900	7,1
Daily training allowance	800	600	35,1
Labour market subsidy as integration allowance	9 100	8 600	5,8
Maternity grant	55 100	54 400	1,3
Family allowance			
Families (December 31)	574 800	580 000	-0,9
Children (December 31)	1 046 900	1 054 200	-0,7
Child daycare subsidies			
Families	128 800	129 800	-0,7
Children	199 200	201 800	-1,3
General housing allowance (households) (December 31)	159 600	158 500	0,7
Student benefits			
Financial aid to students	297 500 ¹	301 600 ²	-1,4
School transport subsidy	51 100 ¹	51 300 ²	-0,4
Conscript's allowance (households)	11 800	10 600	11,3

¹ School year 2001/2002.

² School year 2000/2001.

maternity package instead of the cash grant.

The total amount of family allowance paid continued to fall (down 0.7% on 2001) and was now EUR 1,366 million. In December, family allowance was paid to 575,000 families (down 0.9%) with a total of 1,045,000 children. Increased family allowance was paid to 102,000 single-parent families.

Financial aid to students

Financial aid to students increased by 1.7%. Total financial aid paid to students came to EUR 701.9 million, of which study grants and housing supplement made up EUR 645.5 million, or 93.2% of the total.

At year end, 246,000 students were receiving financial aid from KELA (an increase of 0.6%); of these, 70,000 were at a university, 75,000 at a polytechnic, 67,000 at a vocational institution, 25,000 at an upper secondary school, 4,000 studying abroad and 5,000 studying at other institutions. 108,000 students were granted a government guarantee for their student loans. At year end, the average study grant was EUR 205, the mature students' study grant EUR 369, and housing supplement EUR 155 a month.

The meals of students in higher education were subsidized by EUR 16.7 million, which is 18.8% more than the previous year.

Interest allowance for student loans was granted to 19,500 persons, and totalled EUR 3.2 million. EUR 0.8 million was granted in interest subsidy. Outstanding student loans at the end of the year amounted to EUR 1.4 billion. Payments made on the basis of government guarantees for student loans totalled EUR 26.7 million (up 1.4% on the previous year), including both repayments of principal and interest payments.

The average processing time for financial aid claims contracted by one day. The average processing time at the Student Financial Aid Centre was 18 days, at university and polytechnic financial aid centres 9 days, and at KELA branch offices 15 days.

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

General housing allowance

General housing allowance expenditure increased by 3.3% to a total of EUR 412.7 million. At year end, households receiving housing allowance numbered just under 160,000 (an increase of 0.7%). At the end of the year, families with children accounted for 43%, single people for 50% and students for

9%. The proportion of unemployed recipients has decreased by 1.5 percentage points since 2001: numbering slightly above 101,000, unemployed households accounted for 63% of all households receiving the benefit. The average housing allowance at year end was EUR 206.2 a month.

During the year under review, KELA took 344,000 decisions concerning claims for general housing allowance. This decrease of 2.4% is explained by the fact that, instead of general housing allowance, students began to receive housing supplement included in financial aid for students. The average processing time for claims was 25 days, which is 5 days less than 2001.

Other benefits

A total of EUR 12.8 million was paid in conscripts' allowances, which is almost 3% more than in 2001. Housing assistance accounted for EUR 10.7 million. Of the 11,800 recipients (11.3% more than in 2001), 9,760 were doing military service, 1,050 were performing non-military service and 1,010 were relatives. Recipients of conscripts' allowance had a total of 930 children.

Compensation for the rehabilitation travel expenses of front veterans came to EUR 0.8 million. Studies on farmers' working conditions were funded to a total of EUR 0.6 million and the National Centre for Agricultural Health, which operates under the Institute of Occupational Health, was reimbursed a total of EUR 0.3 million for its expenses.

OTHER KELA OPERATIONS

RESEARCH & DEVELOPMENT AND INFORMATION SERVICES

In 2002, much of the research carried out by KELA focused on medical insurance benefits, rehabilitation and care allowances, and Finnish income security and its correctness. KELA published 19 reports and several dozen research articles on these topics in its various publication series. In the interests of more effective geriatric rehabilitation, KELA launched an extensive project called *IKÄ* (Age) in cooperation with Finnish municipalities. KELA's research department's expertise and knowledge contributed to a number of development projects in Finland and abroad and to preparation of several legislative bills. The department also increased its work on the production of electronic publications and launched a 'health barometer' on its website to provide information for regional and municipal needs.

The information service gathered

information from a variety of sources and passed it on mostly to KELA's own units but also to external customers. It also acquired electronic data services for the benefit of the entire KELA organization. The unit continued to cooperate with other information service units in the administrative sector under 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. KELA took part in related negotiations with the national social insurance institutions in the other Nordic countries, Belgium, Germany, Latvia, Lithuania and Estonia.

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) and the Foundation for International Studies on Social Security (FISS). There was also some cooperation with social security research institutes in EU Member States and other countries.

The International Unit, which began operations in May, is the 'home base' for customers living abroad, issuing insurance decisions on seconded workers, people in missionary work or development cooperation, and those engaged in full-time research or study abroad.

The amended Treaty of Luxembourg came into effect in February and the treaty on free mobility of people between the EU and Switzerland in June.

COMMUNICATIONS [The Finnish name of the communications unit was changed in September]

The structure and visual image of KELA's Internet services and the principles of maintenance and organization of these services were revamped. There were about 1,708,000 visitors on KELA's pages, which was 75% more than in 2001.

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 each) of *Sosiaalivakutus*.

Media bulletins were issued and radio programmes were produced for local radio stations.

The latest publication is the Finnish-language *Kaikkien Kela* (Kela for all) which describes KELA operations and the types of benefits provided. KELA also published *Kela-info* brochures on changes in study loans and interest subsidy, compensation for coeliac disease, and extension of compensation for dental care. Eight Finnish and Swedish brochures on basic social security and the English-language brochure *A Guide to Benefits* were updated.

KELA was represented at the *Nextstep* job and training fair in Helsinki in January, the Finnish agricultural fair *Farmari* in Hämeenlinna in August, the *Rekisterit auki* (Open the registers) event in November and the *Studia* study fair in Helsinki in December.

DATA PROCESSING

In the spring, KELA prepared a data processing development plan for 2003-2007 and adopted the principles for architectures related to benefits, information exchange and statistics. Further development is currently under way.

Introduction of the euro continued throughout the year, except for the operative data systems. The changes in legislation concerning benefits which caused most work related to unemployment security and daily parenthood allowance and financial aid for students. Claw-back procedures applied by KELA were improved to ensure more effective collection. Integration of benefit claims handling and electronic document management began; today, the electronic document management application is used in 47 insurance districts, or 66% of the entire population base.

In early 2002, KELA replaced 3,800 workstations with new ones. The Internet services were transferred to KELA's computer system in the spring and the data communication network was revamped over the spring and summer. The environment for mainframe servers and application production was adapted to make electronic transactions easier for customers. The print-to-mail line for letters was revamped in the autumn; during the year, KELA sent a total of 17.8 million letters by means of a centralized mailing system. A new e-mail system was introduced in November. The mainframe computer's power was increased to meet the growing number of users. Terminal events numbered 1.2 billion. The project to change the operating system for PC workstations has reached the trial stage.

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 KELA's statistics and other information production.

Publications produced during the year included KELA statistical yearbook, the quarterly statistical review, pocket statistics published in five languages, six annual statistical reviews and one separate statistical booklet on Finnish health care expenditure. A total of 16 statistical publications and 60 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 an actuarial report on how it will manage social security up to 2050. Estimates on the financial effects of reforms were drawn up for the Social Expenditure Committee and several other social security development projects.

CUSTOMER SERVICES AND THE SERVICE NETWORK

At year end, KELA's five insurance regions comprised altogether 82 insurance districts, each with one or more branch office open daily and providing the full range of services. There were 328 branches in different parts of Finland providing client services; 263 of these were full-service offices with daily office hours, while 65 were sub-offices with restricted office hours. KELA was also involved in 127 shared-service projects.

KELA offices on December 31, 2002

Insurance region	Full-service offices	Sub-offices	Total offices
Northern Finland	43	18	61
Western Finland	43	9	52
Eastern Finland	56	17	73
Southwestern Finland	52	15	67
Southern Finland	69	6	75
Total	263	65	328

The offices had about 18 million contacts with clients in 2002, 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 6,124 employees, 118 more than a year earlier.

The number of staff at branch offices increased by 44, at regional offices by 6, and central administration staff by 68.

At year end, there were 5,102 full-time employees (an increase of 57 on 2001); 4,626 of these were permanent members of staff (an increase of 44), and 476 fixed-term employees (an increase of 13). There were 930 part-time permanent staff (an increase of 43) and 92 part-time fixed-term employees (an increase of 18).

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

	Dec. 31, 2002	Dec. 31, 2001
Central administration	1 304	1 263
Regional offices	210	208
Branch offices	3 588	3 574
Total	5 102	5 045

Salary grades were reviewed for the second time under the new pay system. A separate pay system for supervisors at insurance districts based on the supervisors' work and personal performance was introduced on September 1, 2002. During the year, KELA also began preparations for a new pay system for the management-level employees, based on the Hay scheme. Also, the incentive and reward system for salaried employees was harmonized in 2002.

All individual workplaces have workplace health promotion (WHP) groups that plan and implement WHP activities. Measures taken by the early rehabilitation working group included workplace community groups, group workouts, special courses, fitness improvement courses and ASLAK® (vocationally oriented medical rehabilitation) courses for a total of 301 persons. The early rehabilitation working group made 82 individual decisions on various rehabilitation measures. A total of 383 people took part in early rehabilitation measures.

Two new changes in legislation will have a significant effect on KELA employees' retirement benefits: as of January 1, 2004,

public-sector employment pensions will be paid in accordance with the "last workplace" principle, while the Act on reimbursement of cuts made in the basic amount of the national pension will come into effect on October 1, 2003. To implement these changes, KELA will use external IT services as well as its own.

In 2002, 92 KELA staff members retired on old age pension, 72 took individual early retirement or disability pension, 123 took part-time pension and 46 took partial disability pension.

TRAINING

A total of 733 training courses were held during the year (607 in 2001). These were attended by 15,244 people (13,571), making for 19,480 person-course days (18,490). In

addition, various units organized training locally. Employees also participated a total of 1,304 times in courses arranged externally (1,380).

Personnel training focused on information 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. 2002 saw the completion of such information packages on daily sickness allowance and school transport subsidy. An experimental course in benefit matters was given over the Internet, focusing on unemployment security. This was a distance learning course carried out in cooperation with the Centre for Extension Studies at the University of Turku.

The emphasis of development training was on teamwork training to support development of operating models and internal cooperation within KELA units. Management training focused on strategy training to improve participants' skills in strategic planning and strategy implementation. Two new groups enrolled in the two-term supervisor course in autumn 2002; by the end of the year, a total of 116 KELA supervisors had completed the course.

Training in the SAHA electronic document management system was given to those insurance districts which would start using SAHA in 2002 and 2003. Also, the entire KELA staff was given training in how to use the new e-mail system introduced in 2002.

FINANCIAL STATEMENTS

OPERATING REPORT BY THE BOARD OF DIRECTORS

Kela's Basic Operating Approach

In accordance with the vision approved by its Board of Directors, KELA has a key position in the implementation of social security, supplying customers with benefits and services straightforwardly and reliably in all parts of the country. We accept our social responsibility and observe the principles of openness, effectiveness and efficiency in our operations, providing customers with the best possible public service.

The values that constitute the foundation of KELA's work are expertise, cooperation, renewal and respect for the individual.

In accordance with our strategy, we respect our clients and the success of our operations derives from the expertise of our staff, the coverage of our network of services, the wide variety of services we provide and our efficient use of information technology. With this vision in mind, the perspectives incorporated in the KELA strategy include those of the customer, social impact, economy, processes, and renewal of staff and work community resources.

New operating model

The Act on the Social Insurance Institution (KELA) which came into effect on January 1, 2002, includes provisions on KELA's new administrative model. According to section 7 of the Act, the Board is responsible for the management and development of KELA. The Board consists of eight members appointed by the Parliamentary Trustees; the two other members of the Board are the

Director-General and his deputy. The Board's term of office is three years.

The new Board convened for the first time on January 7, 2002. In all, the Board held 18 meetings, three of which were arranged as conference calls.

According to section 21 of the new Act, the Board appoints an Advisory Committee to promote and develop collaboration between authorities and organizations engaged in social security affairs and to enhance the perspective of users of KELA services.

An essential part of the Board's work during its first year in office was preparation of new internal regulations, which came into effect on September 1, 2002, and decisions on the division of responsibilities between the Directors and of administrative powers within KELA. The decision on the latter issue and certain other decisions have helped the Board to delegate some of its powers to lower levels.

65 years in operation

In 2002, KELA celebrated its 65th anniversary. According to KELA Barometer surveys and Gallup polls, KELA's public image has improved, and this is also confirmed by feedback from our partners. The work climate within KELA has also improved. We are therefore well equipped to enhance our operations even further. The new operating and administrative model has clearly enjoyed a successful start.

Division of responsibilities between Directors

Jorma Huuhtanen, Director-General

Responsible for strategic planning, operative management and development at KELA and the operations of the regional and local administration. Head of the Administration Department and the Economic Department.

Matti Puhakka, Director

Deputy Director-General; head of the Human Resources Department, the Research Department and the Rehabilitation Services Unit

Pekka Morri, Director

Head of the Health and Income Security Department

Helena Pesola, Director

Head of the Pension and Income Security Department and the Actuarial and Statistics Department

Henry Olander, Director

Head of the Information Systems Department

Asko Apukka, Director

Head of the Office Services Department

The Board has also approved KELA's operational and financial plan for 2003-2006. This covers the basic operating approach, the mission statement, the key values adopted by KELA, the vision and the main strategy. It

also includes the financial plan, the balanced scorecard and a portfolio of projects for 2003.

Quality issues

As an essential part of the development of KELA's operations, quality issues have been incorporated into operational plans and result agreements. Individual units carry out self-evaluations which bring up key strengths and help to define areas that need to be developed further. KELA's quality development team was headed by the Directors. A quality competition was arranged in 2002 among the KELA units, with the computer centre coming out as the winner and the Pielisen-Karjala insurance district earning an honourable mention.

Legislative proposals and other initiatives

Under section 2 of the Act on the Social Insurance Institution, KELA can make legislative proposals related to its field of operations. In one such proposal submitted to the Ministry of Social Affairs and Health, the Board of KELA suggested a change in the principles for setting the rates for reimbursing medical and dental fees and for reimbursing the costs of examinations and treatment. This would mean higher reimbursements.

Other important decisions taken by the Board relate to a review of the KELA collective agreement in line with the Government's incomes agreement, converting the Rehabilitation Services Unit into a company within KELA as of January 1, 2003 and creating a unit for international claims on May 1, 2002. The Board also handled matters related to KELA's investment assets on several occasions.

Since summer 2002, KELA has been pursuing its new plans for concrete development of the service network and data systems.

Funding

Overall KELA expenditure came to EUR 9,991 million. This comprises EUR 9,677 million in benefits and EUR 314 million in operating expenses. The total figure was up a good EUR 649 million on 2000.

Total income came to EUR 9,999 million, up EUR 394 million on 2001. This includes EUR 649 million in government liquidity guarantee payments to the national health insurance (NHI) fund.

Insurance contributions accounted for 34% of total income. Government contributions accounted for 54%, those from municipalities for 4% and revenues from

value added tax 7%. The rest comprised yield on assets, payments by the motor and accident insurance institutions and money recovered on account of non-primary liability.

Investments

KELA adopted a set of general investment principles and an investment plan for 2002. 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.

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. The fund will continue to be augmented until the year 2010. The first aim for 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 two years, the trend on the Finnish stock market remained negative in 2002. All industries showed a distinctly negative yield; this was the case with high-tech companies in particular, and, after July, the fall in share prices affected basic industries as well. The total market value of all domestic shares quoted on the stock exchange that KELA held fell from EUR 879 million to EUR 689 million during the year (an overall decline of EUR 190 million). The market value of the pension liability fund's domestic shares fell from EUR 473 million to EUR 393 million, or by EUR 80 million. The fall in the market prices of KELA's equity investments was largely due to poor price trends in the second half of the year.

Dividend yields totalled EUR 33 million (FIM 35 million in 2001), and the average interest on current assets was 3.23% (4.31%). The monthly current asset average was EUR 430 million (EUR 444 million).

Interest yields totalled EUR 14 million (FIM 20 million).

Funding national pension insurance

National pension insurance (NPI) expenses

totalled EUR 3,028 million, and income EUR 3,001 million. Of total NPI income, 45% derived from employer contributions, 38% from government contributions and 16% from value added tax revenues. The percentage of income from contributions paid by employers decreased on 2001 because of cuts in the payment rates, while the percentage of income from value added tax revenues paid to KELA increased.

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. A government liquidity guarantee payment of EUR 24 million was also required to achieve the minimum level set for the national pension insurance fund.

Funding national health insurance and rehabilitation

Total national health insurance expenditure in 2001 was EUR 2,926 million, of which rehabilitation costs were EUR 266 million. Income for the year amounted to EUR 2,313 million. A government liquidity guarantee payment of EUR 625 million was also required to achieve the minimum level set for the sickness insurance fund. Most of the funding for national health insurance and rehabilitation derived from contributions paid by the insured (37%) and employers (31%), the government liquidity guarantee payment (21%) and revenue from value added tax (7%).

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 EUR 4,036 million.

The government funded EUR 3,634 million of other social security expenditure. The municipalities paid a total of EUR 371 million to cover the costs of child daycare. The remaining EUR 31.5 million came from wage earners' unemployment insurance contributions.

Administration expenses

Administration expenses totalled EUR 313.9 million, up 6.2% on the previous year. The increase, excluding depreciation, was 4.7%.

Wages and salaries accounted for EUR 147.7 million, an increase of 4.2% on the previous year. Staff-related costs, which comprised contributions to cover employment pension liability, and statutory and voluntary contributions to staff-related

costs, totalled EUR 46.5 million, up 14.4% on the previous year.

Administrative expenses also include EUR 73.0 million in other expenses, up 5.2% on the previous year. The main items under 'Other expenses' are IT costs and costs related to premises. Certain income items totalled EUR 14.1 million and thus reduced administrative expenses. Purchased services came to EUR 46.7 million, the largest item comprising tax costs paid to the tax administration.

Pension liability fund

KELA's actuarial liability for staff pensions totalled EUR 1,176 million at the end of the year, with expenditure on current pensions accounting for EUR 450 million. The full pension liability increased by EUR 62 million in 2002, 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. At the end of 2002, the coverage was 28.4%. During the year under review, EUR 15.1 million was transferred to the fund in sales profits from the pension liability fund and 6.5 million in other yields from the fund.

FIM 18.9 million in employer contributions was paid into the pension liability fund. In addition, employee contributions amounted to EUR 6.6 million, EUR 1.8 million of which was used to cover pension liability. Staff pension payments totalled EUR 40.3 million.

HEALTH INSURANCE PAYMENT CRITERIA

FOR EMPLOYERS

% of wages subject to withholding tax

National pension insurance

	2001	2002	2003
Private sector ¹			
Class I contributions	2,00	2,00/1,35 ²	1,35
Class II contributions	4,00	4,00/3,55	3,55
Class III contributions	4,90	4,90/4,45	4,45

Public sector

Central Government and Åland	3,95	3,95	3,95
Municipalities and the Church	3,15	3,15/2,40	2,40

Health insurance

Private sector	1,60	1,60	1,614
Public sector			
Central Government and Åland	2,85	2,85	2,864
Municipalities and the Church	1,60	1,60	1,614

Outlook for 2003 and beyond

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

The client and social impact

By developing the different types of service further and maintaining a fair division of labour, we will ensure the efficient operation of a network of KELA offices covering the entire country, including various joint service units in the public sector. Submitting claims or contacting KELA on other matters over the telephone or by post will be made increasingly easy for customers. In addition to personal, face-to-face service, there will be electronic services, self-service systems and direct reimbursement systems – all taking data security into special consideration.

Information bulletins on benefits and services offered by KELA will be distributed via a wide range of media, and the quality of customer service and internal operations will be checked regularly with surveys and reports. KELA will actively produce prognoses, estimates and research reports in order to participate actively in the development of social security.

Economics

In 2003, KELA's total income and expenditure are expected to reach EUR 10.3

billion, which is an increase of around one per cent on the 2002 level in real terms. It is estimated that the NPI and NHI funds will need about EUR 640 million in government liquidity guarantees.

The proportion of insurance contributions in the funding of expenses will continue to fall. The increase in the health insurance contribution collected on pension income was revoked in 2003. The revenue KELA will receive from value added tax will rise by EUR 300 million compared with 2002.

Over the next few years, payment of health insurance benefits – particularly daily sickness allowance and drug reimbursement – will increase at a faster rate than payment of other benefits. Unless any rises are effected, pension insurance benefits will decrease in real terms, as will other expenditure on social security. Operating costs will account for about the same percentage of total KELA expenditure as in 2002.

With regard to funding this expenditure, there will be an increasing need for a government liquidity guarantee payment if the criteria for insurance contributions remain at their current level.

Processes

KELA strives to deal with matters swiftly, correctly and uniformly. Decisions will be made more intelligible. KELA seeks to improve the efficiency and flexibility of its internal operations and to make its procedures uniform. We will make benchmarking comparisons between our processes and best practices.

Staff and workplace renewal

KELA will place special emphasis on leadership skills and interactive management that boosts employee motivation. We will also further employees' skills, work ability and wellbeing, maintain job satisfaction by promoting meaningful work and a functional work community, improve induction of new employees, and strive for a good balance between work loads and resources.

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

² As of March 1, 2002