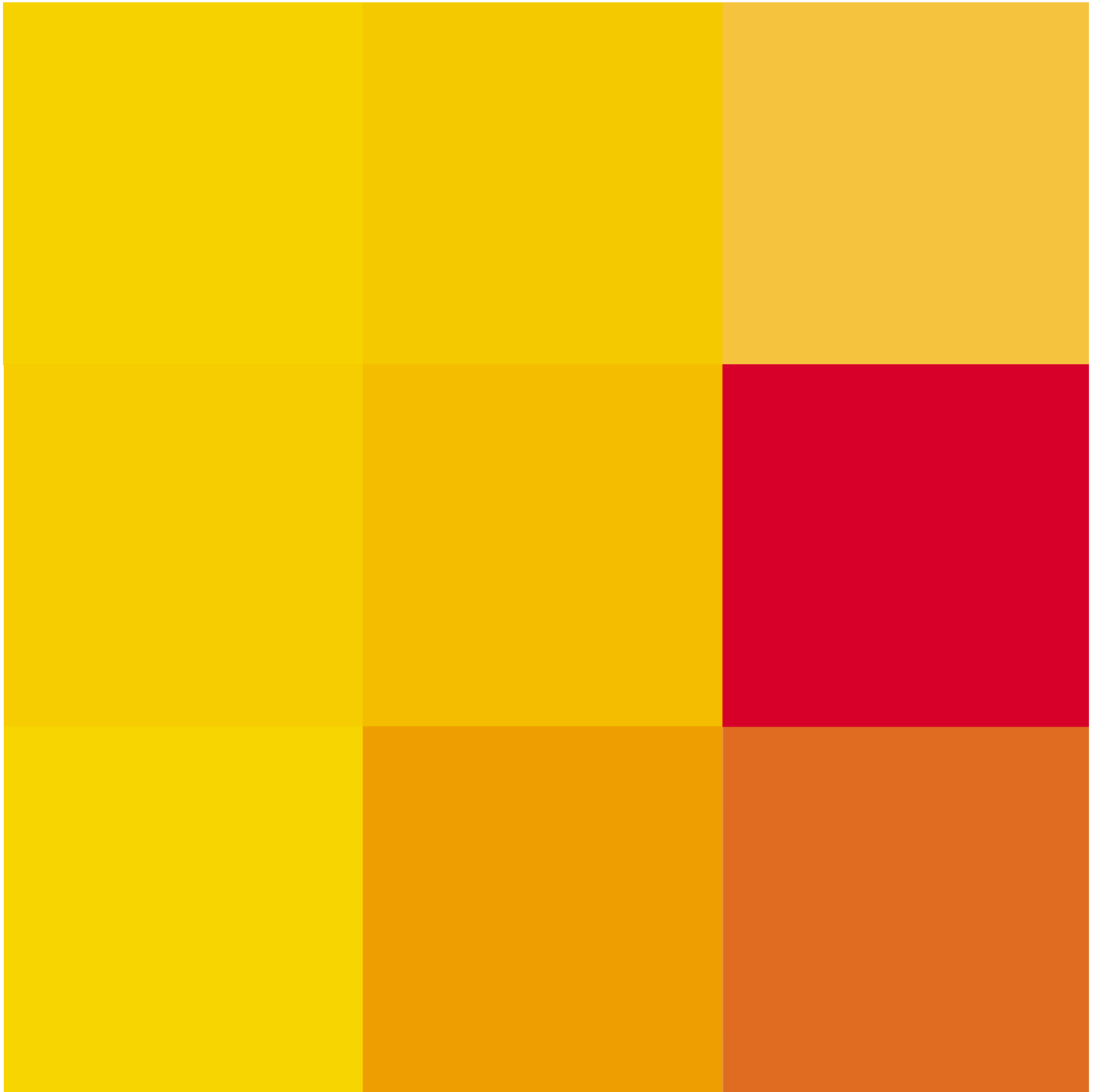




KELA SOCIAL INSURANCE INSTITUTION

ANNUAL REPORT **2003**



KELA – A SERVICE FOR EVERYONE

Close to the client

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, conscript's allowances and special assistance for immigrants.

Nearly all decisions concerning the grant of social security benefits are taken at the offices of KELA's insurance districts. Only decisions concerning disability pensions, EU reimbursements of medical expenses 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.

Supervised by Parliament

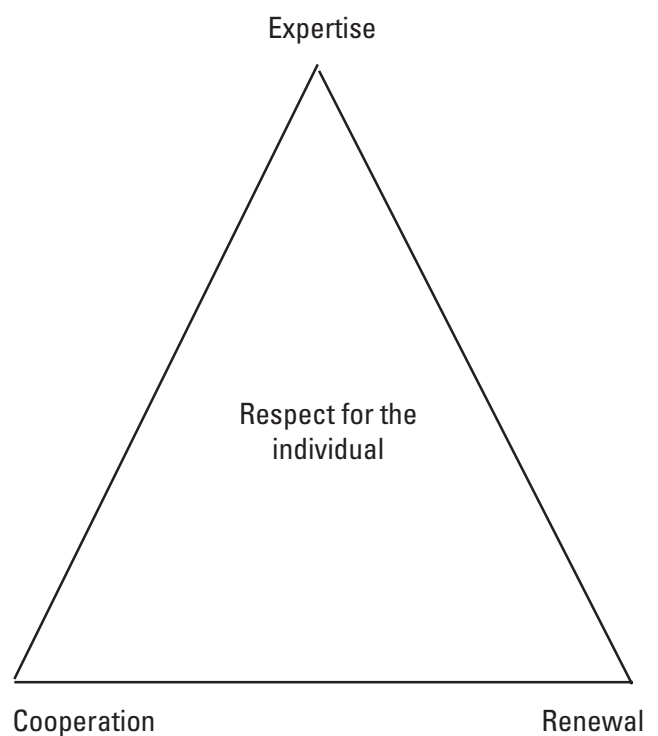
KELA operates under the supervision of Parliament. It has a 10-member Board of Directors that manages and develops its operations. The administration and operations of KELA are supervised by 12 trustees appointed by Parliament and eight auditors chosen by them.

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 2003

KELA paid out EUR 9.9 billion in benefits in 2003. Administrative expenses came to EUR 330 million, or 3.2% of total expenditure. Income totalled EUR 10.3 billion, 54% of which came from the central government. Insurance payments covered 32% of expenditure. KELA needed EUR 677 million in government liquidity guarantee payments.

Most Finns received some form of KELA benefit in 2003: health insurance benefits were paid to 3.9 million people. At year end, family allowance was paid for more than 1 million children. The number of pension recipients at the end of the year was 800,000. Unemployment benefits were paid to 315,000 people.

Development focused on management practices, strategies, and incentive schemes as well as processes and their advancement. Key projects included the online client service as well as customer service development, which included the telephone service, equal distribution of the workload and customer segmentation.

At year end KELA had 263 of its own service outlets providing a full service on every weekday and 60 secondary local-sub offices in 82 insurance districts. In addition, KELA participated in 131 different shared-service projects.

The quality programme was implemented for the sixth 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. KELA held its third internal quality competition, the winner of which was Tampere insurance district.

A KELA client service survey was carried out as in previous years. The level of service received an overall grade of 8.2 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 interest groups.

At year end the staff numbered 6,171, 5,160 of whom were full-time employees. The full pension liability for KELA staff was EUR 1.2 billion, 32% of which was covered.

BENEFITS PAID BY KELA

ALL BENEFITS

KELA benefit payments grew nominally by 2.6% on the previous year; in real terms, the increase was 1.7%. The total amount of benefit payments came to EUR 9.9 billion.

Health insurance benefits, rehabilitation benefits, housing allowance and unemployment security benefits increased over the previous year, while pensions and disability benefits as well as benefits paid to families with children declined. Financial aid for students remained nominally the same.

	2003 EUR million	2002 EUR million	Change %
Pensions and disability benefits	2 875,0	2 900,1	-0,9
Health insurance benefits	2 680,6	2 471,3	8,5
Rehabilitation benefits	286,5	266,3	7,6
Unemployment security benefits	1 176,5	1 135,9	3,6
Benefits for families with children ¹	1 733,5	1 746,8	-0,8
Financial aid for students	726,8	726,6	0,0
General housing allowance	430,1	412,7	4,2
Other benefits	20,9	17,3	20,6
Total	9 929,9	9 677,0	2,6

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

NATIONAL PENSION SECURITY AND DISABILITY BENEFITS

Pension and disability benefit payments totalled EUR 2,875 million, which was a decline of EUR 25 million (0.9%) on the previous year, despite an index increase of 1.2% in the benefits.

The number of pension recipients was 802,200 at the end of the year, 1.1% fewer than in 2002. The number of old-age pension, unemployment and survivors' pension recipients decreased. The number of disability pension recipients and those entirely dependent

KELA IN BRIEF

	1999	2000	2001	2002	2003
Overall expenditure, EUR billion	9,3	9,3	9,6	10,0	10,3
Benefits EUR billion	9,0	9,0	9,3	9,7	9,9
Administration expenditure/total expenditure,%	3,0	3,0	3,1	3,1	3,2
Benefits/GDP,%	7,5	6,9	6,8	6,9*	6,9*
Benefits/social expenditure,%	28,0	27,3	26,6	26,2*	25,8*
Benefits/insured person, EUR/year	1 741	1 741	1 784	1 859	1 902*
Staff on December 31	5 778	5 906	6 006	6 124	6 171

* Estimate

on pensioners' housing allowance, care allowance, child increase or front-veterans' supplement as the national pension rose. The structure of the national pension underwent a change, resulting in an increase in recipients of the housing allowance (21.5%), pensioners' care allowance (22.7%) and child increase (1.7%) and a decline in recipients of the national pension (reducible by earnings-related pensions) (87.3%) and the front-veterans' supplement (14.8%). The number of people receiving the full national pension was 102,700 (a decrease of 3.5%).

The number of recipients of the child care allowance went down by 5.5% to 39,200 at the end of the year, while the number of people receiving the disability allowance increased by 23.1% to 24,800. The increase is due to the rise in diet allowance. Diet allowance was being paid to 18,800 people at year end either as pensioners' care allowance or disability allowance.

KELA received a total of 391,000 claims for pension, pension addition, disability allowance or benefit adjustment (a decrease of 3.9%). Altogether 24,300 of these were claims from abroad, submitted on the basis of an EC regulation or social security conventions. Of all the applications, 37% were claims for new pensions or disability allowances and another 37% were for housing allowances.

The average national pension at year end was EUR 289 per month, including front-veteran's supplement. The national pension of a single person entirely dependent on national pension was EUR 93 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.

PENSIONS AND DISABILITY BENEFITS

Pensions	2003	2002	Change
	EUR mill.	EUR mill.	%
Pensions paid	2 765,9	2 792,0	-0,9
National pensions	2 620,5	2 635,7	-0,6
Old-age pensions	1 782,5	1 821,3	-2,1
Under-65s	7,5	8,1	-7,7
Disability pensions	709,3	690,6	2,7
Individual early retirement pensions	10,0	13,0	-22,8
Unemployment pensions	49,1	50,4	-2,5
Other ¹	79,6	73,5	8,4
Survivors' pensions	39,6	40,6	-2,4
Front-veterans' supplements	105,8	115,7	-8,6
Other benefits	2,8	2,8	-0,7

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

Number of pensioners	Dec.31,2003	Dec.31,2002	Change %
Pensioners, total	802 200	810 900	-1,1
National pension recipients	767 800	775 400	-1,0
Old-age pensioners	496 300	504 200	-1,6
Under-65s	3 200	3 600	-9,9
Disability pension recipients	151 500	150 900	0,3
Individual early retirement pensions	4 300	5 600	-24,4
Unemployment pension recipients	22 800	23 700	-3,4
Others ¹	97 200	96 600	0,6
Survivors' pension recipients	34 400	35 500	-3,1

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, 2003	Dec.31, 2002	Change %
National pension recipients with national pension			
reducible by employment pensions	670 600	678 800	-1,2
- full national pension	102 700	106 500	-3,5
- reduced national pension	567 800	572 300	-0,8
no actual pension, but receiving housing allowance, pensioners' care allowance, front-veterans' supplement or child increase	97 200	96 600	0,6
- housing allowance	164 800	164 300	0,3
- pensioners' care allowance	174 400	168 600	3,4
- front-veterans' supplement	113 900	124 700	-8,7
- front-veterans' additional supplement	59 400	66 000	-10,1
- child increase	12 900	11 900	8,2

Disability benefits	2003	2002	Change
Allowances paid	EUR mill.	EUR mill.	%
Child disability allowances	73,7	76,2	-3,3
Disability allowances	35,4	31,9	10,9
No. of persons receiving	Dec.31,2003	Dec.31,2002	Change %
Child disability allowances	39 200	41 500	-5,5
Disability allowances	24 800	20 200	23,1

NATIONAL HEALTH INSURANCE

Health insurance benefit expenditure grew by EUR 209 million on the previous year (8.5%). KELA paid out EUR 2,681 million in health insurance benefits. The number of people receiving health insurance benefits grew by 0.3% to 3.9 million.

Daily sickness allowance increased by 5.0% and daily parenthood allowance by 11.8%, 9.1% for mothers and 16.3% for fathers. The increase in parenthood allowance derived from a rise in the birth rate, adjustments to parenthood allowance mainly regarding fathers' benefits as well as a rise in annual leave expense compensation. The amount of holiday pay expense compensation doubled as a result of simplifying the claiming process. This was paid to the employers of 26,500 people in the amount of EUR 26 million.

At the beginning of 2003, fathers were granted the right to paternity allowance for 12 consecutive weekdays, if the father took the last 12 weekdays of the parental leave (so called paternity month). This extended paternity allowance was paid to 2,100 fathers and totalled EUR 1.5 million.

The average amount of daily sickness allowance was EUR 42 and daily parenthood allowance EUR 37. Daily sickness allowance of the minimum amount or less was paid to 12,200 people. Earnings-based daily parenthood allowance of the minimum amount was paid to 21,400 people.

The number of daily sickness allowances settled was 612,000 (an increase of 0.5%). The average processing time for claims was 15 days, i.e. the same as in 2002.

Reimbursements of medical expenses increased by 8.3% with a total number of 26 million payments (an increase of 1.9%). Of these, reimbursements for medicine costs grew by 6.8% (EUR 58 million). The corresponding figures for 2002 were 11.9% and EUR 91 million. The slowdown in the growth was due to the new regulations that

came into force from April 1, 2003 concerning generic substitution and an increase in personal liability on the purchase of a medicinal product. Generic substitution entails the prescribed medicinal product being substituted in a pharmacy by the cheapest generic alternative. The reimbursement payment will be based on the price of the dispensed product. The number of people receiving reimbursements for medical expenses declined by 1.8%, while the number of those claiming additional compensation for medicine costs rose by 16.9%.

2003 was the first year when the right to dental care reimbursable out of health insurance was extended to cover the entire population. Reimbursements for dentists' fees went up by EUR 93.1 million (an increase of 43.4%), and the number of people receiving the reimbursements went over the one million mark (an increase of 43.7%). Reimbursements for doctors' fees as well as examination and treatment costs reimbursed from health insurance increased by more than one per cent and travel expense allowance by 6.9%.

REHABILITATION

The cost of rehabilitation went up by 7.6%, totalling EUR 287 million. EUR 227 million was spent on individual rehabilitation (an increase of 17.1%). The rehabilitation allowance granted as income security during the rehabilitation period accounted for EUR 55 million (an increase of 11.2%).

KELA funded the rehabilitation of 87,000 people; 17,200 of these received vocational rehabilitation for persons with severe disabilities, 20,800 received medical rehabilitation for persons with severe disabilities, and 52,100 received other vocational and medical rehabilitation. The number of clients receiving rehabilitation rose by just under one per cent on the previous year. The number of those in rehabilitation due to mental health issues rose by 7.8%. Psychotherapy was given to 10,300 persons, 4,700 of whom participated in psychiatric rehabilitation for children and young people.

Rehabilitation allowance was paid to 59,500 persons (an increase of 1.4%). 72% of whom received their decision from KELA. The largest group by far receiving rehabilitation allowance on the basis of other legislation comprised those with a rehabilitation decision based on the Occupational Healthcare Act, mainly granted for the duration of fitness improvement courses. Those participating in rehabilitation arranged by KELA received rehabilitation allowance for an average of 27 days. The average rehabilitation allowance was EUR 32 per day per person.

HEALTH INSURANCE BENEFITS

	2003 EUR mill.	2002 EUR mill.	Change %
All benefits	2 680,6	2 471,3	8,5
Compensation for loss of income	1 232,8	1 139,1	8,2
Daily sickness allowance ¹	633,9	603,6	5,0
Daily parenthood allowance ²	598,9	535,5	11,8
Medical expenses compensation	1 262,9	1 166,4	8,3
Other benefit	184,9	165,8	11,5
All medical expenses compensation	1 262,9	1 166,4	8,3
Medicines	917,6	859,4	6,8
Basic compensation (50 %)	329,2	319,6	3,0
75% compensation	237,1	236,9	0,1
100% compensation	281,6	248,6	13,3
Additional compensation for medicines ³	69,4	54,2	28,2
Doctors' fees	65,5	64,6	1,5
Dentists' fees	93,1	64,9	43,4
Examination and treatment	56,0	55,2	1,4
Travel costs	130,7	122,3	6,9
Additional compensation for travel costs ³	24,8	23,4	5,9

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 2003, the maximum level of personal liability for the cost of medicines was EUR 601.15 and that for travel EUR 157.26.

RECIPIENTS OF HEALTH INSURANCE BENEFITS

	2003	2002	Change %
All benefits	3 858 400	3 848 200	0,3
Daily sickness allowances	325 600	320 900	1,5
Daily parenthood allowances	142 200	139 700	1,7
Compensations for medical care	3 796 200	3 789 700	0,2
Medical expenses compensation	3 292 700	3 353 800	-1,8
Basic compensation (50%)	3 134 800	3 205 900	-2,2
75% compensation	806 300	795 300	1,4
100% compensation	420 800	406 200	3,6
Additional compensation for medicines	144 200	123 400	16,9
Doctors' fees	1 503 700	1 483 000	1,4
Dentists' fees	1 015 100	706 200	43,7
Examination and treatment	785 400	762 800	3,0
Travel costs	577 900	571 400	1,1
Additional compensation for travel costs	37 400	36 000	3,9

UNEMPLOYMENT SECURITY

KELA's unemployment benefits expenditure grew by 3.6%, totalling EUR 1,177 million, of which EUR 1,021 million was paid as labour market subsidy (an increase of 1.8%).

The highest increase was in benefits paid for the duration of activities under labour market programmes, including training allowance (34.5%) and labour market training benefits (27.3%). Employers who provided work for those in long-term unemployment were paid EUR 98 million (an increase of 20.0%) in combined subsidy.

Unemployment benefits were paid to 315,000 people during the year, with benefits paid for an average of 157 days per person. Basic daily allowance was paid to 51,300 persons (an increase of 10.3%) and labour market subsidy to 255,400 persons (a decrease of 2.9%). In addition, labour market subsidy was paid as combined subsidy to the employers of 36,400 long-term unemployed people (an increase of 12.4%), and integration allowance was paid to 10,000 immigrants (an increase of 9.9%).

Altogether 75,600 of those receiving labour market subsidy had taken part in trainee work, labour market training or other activities under labour market programmes during the year. Of the recipients of labour market subsidy, 79,100 had received earnings-related unemployment allowance and 70,900 the basic daily allowance for the maximum periods allowed.

The average basic daily allowance under employment security was EUR 22.50, while the average daily labour market subsidy was EUR 23.80. 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 755,100 decisions on claims for basic daily allowance and labour market subsidy (an increase of 2.4%). The average processing time of new claims was 15 days, increasing by two days.

A total of EUR 40.0 million (an increase of 27.3%) was granted in labour market training benefits to 49,800 people. From the beginning of 2003, maintenance allowance (EUR 3.2 million) paid to recipients of integration allowance for the duration of labour market training was included in training benefits.

OTHER BENEFITS

	2003	2002	Change
	EUR mill.	EUR mill.	%
Rehabilitation	286,5	266,3	7,6
Rehabilitation services	227,0	212,0	7,1
Rehabilitation allowance	54,9	49,4	11,2
Other expenditure	4,5	4,8	-6,0
Unemployment protection ¹	1 176,5	1 135,9	3,6
Basic unemployment allowance ²	112,0	98,7	13,5
Labour market subsidy ³	1 020,8	1 003,0	1,8
Labour market subsidy as combined subsidy	98,4	82,0	20,0
Labour market training	40,0	31,4	27,3
Daily training allowance	3,4	2,5	34,5
Maternity grant	11,1	9,6	15,5
Family allowance	1 358,6	1 366,0	-0,5
Child daycare subsidies	363,8	371,2	-2,0
Statutory allowance	312,4	321,1	-2,7
Municipal supplements	51,5	50,0	2,8
Student benefits	726,8	726,6	0,0
General housing allowance	430,1	412,7	4,2
Other	18,1	14,5	24,7

¹ Includes job alternation compensation (EUR 0.3 million in 2002 and EUR 0.4 million in 2003).

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 6.9 million in 2002 and EUR 10.9 million in 2003) and labour market subsidies paid out as travelling allowances (EUR 0.8 million in 2002 and EUR 0.1 million in 2003).

OTHER BENEFITS: Recipients

	2003	2002	Change
Rehabilitation	105 700	104 200	1,4%
Rehabilitation services	87 800	87 000	0,8
Rehabilitation allowance	59 500	58 700	1,4
Unemployment protection			
Basic unemployment allowance or labour market subsidy	299 400	303 200	-1,3
Basic unemployment allowance	51 300	46 600	10,3
Labour market subsidy	255 400	263 000	-2,9
Labour market training	40 500	40 200	0,8
Trainee work/Coaching for working life	37 100	33 600	10,3
Rehabilitating work	3 200	2 000	65,0
Travelling allowance	700	900	-20,6
Labour market subsidy as combined subsidy	36 400	32 300	12,4
Labour market training support	5 900	5 200	11,9
Daily training allowance	1 000	800	20,1
Labour market subsidy as integration allowance	10 000	9 100	9,9
Maternity grant	56 800	55 100	3,1
Family allowance			
Families (December 31)	571 400	574 800	-0,6
Children (December 31)	1 041 900	1 046 900	-0,5
Child daycare subsidies			
Families	130 100	128 800	1,0
Children	199 100	199 200	-0,0
General housing allowance (households) (December 31)	158 900	159 600	-0,4
Student benefits			
Financial aid to students	298 100 ¹	297 500 ²	0,2
School transport subsidy	51 100 ¹	51 100 ²	0,1
Conscript's allowance (households)	11 700	11 800	-0,7
Special assistance for immigrants	2 800	-	-

¹ School year 2002/2003.

² School year 2001/2002.

BENEFITS FOR FAMILIES WITH CHILDREN

Expenditure on child daycare subsidies decreased by 2.0%. Total expenditure came to EUR 364 million. This sum includes EUR 321 million in child home care allowance, EUR 41 million in private daycare allowance, and EUR 2 million in partial care allowance. Municipal supplements amounted to EUR 52 million. Child daycare subsidies were paid for 199,100 children to 130,100 people (an increase of 1.0%). Of these 17,500 were recipients of private daycare allowance.

A decree concerning a rise in maternity grants came into force from the beginning of March 2003. In the case of multiple birth or adoption of more than one child, the grants are awarded double for the second child, triple for the third child etc. In addition, from the beginning of December 2002, an adoption grant has been paid by KELA to offset some of the costs of international adoption, granted on the same basis as maternity grants. Maternity grants totalling EUR 11 million (an increase of 15.5%) were paid, including adoption grants of EUR 1.0 million. Maternity grants were paid to 56,800 people, 280 of whom also received adoption grants.

The total amount of family allowance paid was 1,359 million (a reduction of 0.5%). In December, family allowance was paid to 571,400 families (a reduction of 0.6%) with increased family allowance paid to 100,200 single-parent families. Family allowance was paid for a total of 1,041,900 children, 157,000 of whom received increased child allowance.

FINANCIAL AID TO STUDENTS

Financial aid to students remained almost the same as in 2002 totalling EUR 727 million and including EUR 701 million in study grants and EUR 26 million in school transport subsidy grants.

Study grants made up EUR 438 million and housing supplement EUR 225 million. Interest allowance for o EUR 3 million, payments made on the basis of government guarantees for student loans EUR 19 million and meal subsidy of students in higher education was EUR 17 million.

At year end, 255,200 students were receiving financial aid from KELA (a reduction of 0.5%). Of these, 76,200 were at a university, 78,600 at a polytechnic, 78,600 at a vocational institution, 22,900 at an upper secondary school, 3,800 were studying abroad and 4,900 were studying at other institutions.

Student loans totalled EUR 1.3 billion at year end (a decrease of 2.9%). There were 351,600 students with student loans, including 94,800 with interest-subsidy loans (a decrease of 21.0%) and 258,500 with market-based loans (a decrease of 5.3%). The average loan was EUR 4,100. The guarantee liability capital being recovered totalled EUR 180 million, increasing by 1.5% on 2002.

Changes in legislation and measures within KELA led to paid guarantee liabilities falling to EUR 19.1 million i.e. a reduction of 29.5% (EUR 27.1 million in 2002). The number of guarantee liability payments decreased by 26.7% to 4,905 (6,695 in 2002). The increase in debt receivables came to a halt, totalling EUR 176.6 million (EUR 177.1 million).

Decisions on financial aid claims totalled 430,000, 136,000 of which were processed at KELA Student Financial Aid Centre, 135,000 at university and polytechnic financial aid centres and 158,000 at KELA branch offices. The average processing time rose from 14 to 17 days. University and polytechnic financial aid centres processed the claims in an average of 10 days, branch offices in 15 and the Student Financial

Aid Centre in 25 days. The lengthened processing time is explained by the transitional phase in implementing the online processing of documents relating to financial aid for students.

School transport subsidy grants were paid to a total of 64,600 students, with expenditure reaching EUR 25.6 million (an increase of 3.6%). Matkahuolto Ltd invoicing accounted for over 69% of the total.

GENERAL HOUSING ALLOWANCE

General housing allowance expenditure increased by 4.2% to a total of EUR 430 million. At year end households receiving housing allowance numbered 158,900, i.e. almost the same as in 2002. At the end of the year, families with children accounted for 42%, single people for 51% and students for 9%. The number of unemployed recipients was 101,500, i.e. 64% of all households receiving the benefit (an increase of 0.5%). The average housing allowance at year end was EUR 210 a month (EUR 206 in 2002).

During the year under review, KELA took 348,100 decisions concerning claims for general housing allowance (an increase of 1.1%). The average processing time for claims was 27 days, which is 2 days longer than in 2002.

OTHER BENEFITS

A total of EUR 13 million was paid in conscript's allowances, which is 2.7% more than in 2002. The increase is explained by housing assistance, which accounted for EUR 11 million. Conscript's allowances were paid to a total of 11,700 households (0.8% fewer than in 2002). When other family members are included, the allowances cover a total of 12,500 people. Of the recipients, 9,700 were doing military service, 1,000 were performing non-military service and 1,000 were relatives. Recipients of conscript's allowance had a total of 900 children.

Compensation for the rehabilitation travel expenses of front veterans came to EUR 0.9 million. Studies on farmers' working conditions were funded to a total of EUR 0.7 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.

From 2003, KELA has paid out special assistance for immigrants. Over the three-month period, the subsidy totalled EUR 3.1 million, with 2,800 receiving the benefit.

OTHER KELA OPERATIONS

RESEARCH & DEVELOPMENT AND INFORMATION SERVICES

KELA published several research articles on various topics in its social and health research publication series, including future challenges for social security and the role of the Social Insurance Institution (KELA), after-effects of the economic depression in Finland in the early 1990s and the efficiency of psychotherapy as a form of rehabilitation. A report was published in collaboration with the Finnish Centre for Pensions on the livelihood of pensioners in the 1990s.

In addition to the domestic and international publications within the KELA publication series, researchers at KELA produced over 200 research articles and reports in addition to holding nearly 200 presentations in seminars and symposiums arranged by cooperation parties and interest groups.

There was an increase in online publishing, including English pages on the reimbursement of medical expenses as well as a report on preventing problems in relation to the rejection of work disability pension claims.

At year end, a new research programme was completed outlining the course of research activities until 2008. Research focused on: the needs and impact of social and health security from the perspective of the public; management systems for social and health security; and KELA as a work community, service provider and operator.

The information service followed both online and printed data. It gathered information from a variety of sources and passed it on mostly to KELA's own units but also to external customers. The unit continued to cooperate with other information service units in the administrative sector under the Ministry of Social Affairs and Health and specialized libraries.

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 and bilaterally with Sweden, Latvia and Estonia. KELA participated in the work of the social security committee under the Nordic Council of Ministers, aiming at finding solutions for removing boundaries restricting mobility within the Nordic countries.

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.

KELA participated in the Finnish-Czech Twinning Project, led by the Finnish National Research Centre for Welfare and Health (STAKES). The project familiarized and tested officials who implement social security measures within the Czech Republic in the enforcement of EC Regulation 1408/71.

From June, EC Regulation 1408/71 came to include citizens within the so-called third member states. During 2003, negotiations ended and a new Nordic social security agreement was signed. It is planned to come into effect in 2004.

COMMUNICATIONS

The revamped Internet pages had 2,490,000 visitors (1,708,000 in 2002). KELA intranet was employed increasingly for the exchange of internal communication and information.

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 (12,000 copies each) of the magazine *Yhteispeli* and six (18,000 copies each) of *Sosiaalivakuutus*.

Media bulletins were issued and radio programmes were produced for local radio stations. Several press conferences, meetings with editors and gatherings for interest groups were arranged.

The latest *Kelainfo* brochures provided information on special assistance for immigrants and direct reimbursement. The Finnish and Swedish brochures on basic social security (10 copies) and the English-language brochure *A Guide to Benefits* were updated. The general publication *Kaikkien Kela* (*Kela for All*) was also published in Swedish, German, English, French and Russian. The *Työ kunnosta kiinni* brochure (*Into Working Order*) was published in collaboration with the Finnish Pension Alliance (TELA).

KELA was represented at the Next-Step job and training fair in Jyväskylä in January, *Lapsimessut* children's fair in Helsinki in April, the Finnish agricultural fair *Farmari* in Oulu in July-August, the register day in November and the *Studia* study fair in Helsinki. KELA also participated at the local government summit *Kuntamarkkinat*.

DATA PROCESSING

In accordance with the data processing development plan drawn up in 2002, principles for architectures related to benefits, information exchange and statistics have been adopted.

The technical prerequisites were created for the even distribution of the workload between branches. Work towards integrating the handling of benefit claims continued. Measures to renew the old personal data system, which served for 25 years, were concluded. The preliminary study concerning the total reform of financial administrative applications was completed. An information system for processing special assistance for immigrants was carried out. Amendments to administrative legislation were entered into the benefit information systems. An online loan guarantee system for financial aid to students put into effect was in collaboration with banks. A trial environment for online prescriptions was implemented. The online document management application is used in 214 insurance districts, or 85% of the entire population base.

Replacing the operating system of workstations has progressed, so that integration of the new operating system into KELA's production environment has been completed. Application changes for the new operating system advanced according to plan, although a large-scale replacement of the operating system will not take place until 2005. The first service for the public using so-called *Katve* identification (collaboration between the Ministry of Labour, KELA and the National Board of Taxes) was completed at the end of 2002. The mainframe computer's power was increased to meet the growing number of users and production use on open architecture servers was begun. Terminal events numbered 1.3 billion and a total of 18.4 million letters were sent by means of a centralized mailing system.

STATISTICS AND CALCULATIONS

The work on statistical architecture was continued. Reporting underwent change by adopting new tools and by transferring statistical reports into a new browser-based system, Kelasto. The use of the Internet in sharing statistical information was expanded. Quarterly series were published only on the Internet, whilst the statistical review was no longer published in printed form.

Publications produced during the year included the KELA statistical yearbook, pocket statistics published in five languages and eight annual statistical reviews. A total of 17 statistical publications and 59 statistical bulletins were produced. Together with the Finnish Centre for Pensions, 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.

Forecasts and funding calculations were produced for the State's and KELA's financial planning. Estimates on the financial effects of reforms were drawn up for the financial reform of national health insurance and development of social security. The scheme for reforming the long-term prediction model was continued.

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 323 branches in different parts of Finland providing client services; 263 of these were full-service offices with daily office hours, while 60 were sub-offices with restricted office hours. KELA was also involved in 131 shared-service projects.

KELA offices on December 31, 2003

Insurance region	Full-service offices	Sub-offices	Total offices
Northern Finland	43	18	61
Western Finland	43	8	51
Eastern Finland	56	17	73
Southwestern Finland	52	13	65
Southern Finland	69	4	73
Total	263	60	323

The offices had about 18 million contacts with clients in 2003, including 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 online services. The offices received 86,400 claims for earnings-related pension, which is 4.9% more than in 2002.

PERSONNEL

At year end, KELA had a total of 6,171 employees, 47 more than a year earlier. The number of staff at branch offices increased by 25, at regional offices by 5, and central administration staff by 17.

At year end, there were 5,160 full-time employees (an increase of 58 on 2002); 4,691 of these were permanent members of staff (an increase of 65), and 469 fixed-term employees (a decrease of 7). There were 921 part-time permanent staff (a decrease of 9) and 90 part-time fixed-term employees (a decrease of 2).

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

	Dec. 31, 2003	Dec.31, 2002
Central Administration	1 319	1 304
Actual Central Administration	549	538
Information Systems Department	378	365
Student Financial Aid Centre	85	87
Disability Pension Department	55	53
Industrial Health and Employees'		
Sick Funds Department	30	30
KELA rehabilitation centre Petrea	125	123
Research Department	97	108
Regional offices	215	210
Branch offices	3 626	3 588
Total	5 160	5 102

Personnel key figures

Average age of permanent members of staff	45,4
Educational level index	4,9
Number of training course days/full-time members of staff	4,1
Sick days-%	3,6
Members of staff leaving KELA	276
New members of staff	293
Retirement age	60,6

The three-year transitional period in adopting a new pay system ended, and salary grades can be drawn up from the beginning of 2004 without special provisions.

The salaries for insurance district supervisors have been determined on the basis of the demanding nature of the work and personal skills from 2002. The salaries of all employees apart from doctors are based on the new pay system.

The workplace health promotion (WHP) group within the personnel division defined the contents of occupational health and related measures in KELA.

Measures taken by the early rehabilitation working group included work community groups, group workouts, special courses, fitness improvement courses and ASLAK® (vocationally oriented medical rehabilitation) courses for a total of 266 persons. The early rehabilitation working group made 61 individual decisions on various rehabilitation measures. A total of 327 people took part in early rehabilitation measures.

In 2003, 68 KELA staff members retired on old age pension, 80 took individual early retirement or disability pension, 51 took part-time pension and 43 took partial disability pension.

TRAINING

A total of 763 training courses were held during the year (733 in 2002). These were attended by 16,547 people (15,244), making for 21,017 person-course days (19,480). In addition, various units organized training locally. Employees also participated 1,766 times in courses arranged externally (1,304).

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. Training on changes in rehabilitation activities within KELA and in the earnings-related pension system was arranged, the participants including regional doctors, insurance district supervisors and employees in charge of issues relating to rehabilitation.

An extensive training series on administrative legislation was carried out within the whole of KELA with a total of 1,371 members of staff participating in the courses. Several local training sessions on administrative legislation were also arranged. Other training focusing on significant reforms included training to support the adoption of the online document management system and the customer feedback system.

The emphasis of development training was on strategy training to improve participants' skills in strategic planning and strategy implementation. Quality training focused mainly on EFQM grading and benchmarking activities. A trial scheme for a management model of expertise was launched, backed by corresponding training.

Rehabilitation Centre Petrea

The Rehabilitation Services Unit was converted into a company within KELA on January 1, 2003. Its operations continued as before, producing rehabilitation services for KELA and other clients. The Unit received a new title at year end, KELA Rehabilitation Centre Petrea.

The number of customer days totalled 43,100, an increase of 9.3% on the previous year. Petrea had a turnover of EUR 8.3 million (an increase of 10.8%).

FINANCIAL STATEMENTS OPERATING REPORT BY THE BOARD OF DIRECTORS

KELA's basic operating approach

In accordance with section 7 of the Act on the Social Insurance Institution (KELA), the Board of Directors is responsible for the management and development of KELA. The Board decides on key strategic and operational issues and through its decisions has delegated administrative powers between the Director-General, Directors and employees.

The Board held 11 meetings during 2003. The Board also held an annual strategy seminar at the beginning of the year, focusing on the strategic foundation of KELA and key operational issues. Annual negotiations with KELA trustees and KELA Advisory Committee have become standard form of operation. The meetings have enabled joint discussions on issues relating to KELA.

The Board visited various KELA offices and divisions including the Tikkurila branch within Vantaa insurance district, Rehabilitation Centre Petrea in Turku and the Office for International Affairs in Helsinki.

The minutes of trustees, auditors and the Advisory Board are distributed to the Board and treated at the meetings. The Director-

General presents a review on KELA operations at each meeting, covering issues such as revenue, expenses, personnel and processing time of claims.

Resourceful KELA

In its meeting on March 19, 2003, the Board outlined the performance of social security. "Social security managed by KELA forms an extensive safety net, curbing the adverse effects of social risks. As an implementer of important social security benefits, KELA has gained a great deal of information through practical customer service, research, and actuarial and statistical activities about the development requirements of the contents and implementation of benefits. The goal in measuring the minimum amounts of benefits must be that income security is resorted to only as an exception."

In accordance with the Act on the Social Insurance Institution, KELA is responsible for proposals concerning the development of legislation in its field. In relation to this, the Board of KELA approved the memo KELA's perspectives for developing the performance of social security during the next term of office". The memo focused on 9 separate issues and was distributed to all parliamentary groups and parties represented in Parliament.

The memo emphasized the funding of KELA, improving the system for reimbursement of medical expenses and raising the level of reimbursement, clarifying the responsibility for funding these reimbursements between KELA and municipalities, merging and chaining transportation reimbursed through social security, paying in full the national pension and pensioners' care allowance and housing allowance during institutional care, rehabilitation for the elderly population base, as well as developing housing allowance, financial aid for students, reimbursement for medicine costs and service guidance. Safeguarding KELA's funding has been a particular concern for the Board.

Funding

The Board proposes that KELA funding should be put on a firm standing. "Because of the criteria for insurance contributions implemented in 1995-2002, KELA insurance contribution income was EUR 1.9 billion less in 2002 than it would have been without the reductions.

Health insurance experienced the worst situation. The government liquidity guarantee payment will rise to EUR 640 million in 2004 and EUR 600 million will be entered as income into the health insurance fund from value-added tax revenues. Without these government payments, a third of the health insurance fund expenditure would remain uncovered". (KELA Board, March 19, 2003)

Strategic base

The operations of KELA are governed by its mission statement, vision, values and strategy approved by its Board of Directors. These principles help the Board guide all KELA operations in achieving the best possible public service. The goal of all operations is to respect customers and increase customer satisfaction, which in turn requires expertise, occupational welfare, high-quality products, efficient processes and cost-effectiveness.

The Board presents the strategy as key figures using a balanced scorecard. The scorecard enables the evaluation of general performance from four perspectives: the customer and social impact, financial, processes and renewal of staff and work community resources.

The focus of development for 2003 within the portfolio of projects approved for 2003-2006 included management practices, implementation of strategies, process development and creating a fair incentive scheme. Other projects within the portfolio included the development of customer service including an even distribution of the workload, online services, an online document management system and its utilization, undertakings to develop legislation on benefits, expertise and training, developing instructions relating to benefits, making documents more intelligible as well as IT architecture.

According to the vision, "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."

Other key decisions

KELA research activities are currently being redrawn, so that focus will centre more closely on the research tasks defined for KELA by legislation. The activities of the research department have been reorganized, some of them placed elsewhere. According to an agreement on the division of labour between KELA and the National Public Health Institute, some 40 employees of the KELA research resources were transferred to the National Public Health Institute. The relocation of personnel, equipment and research material was carried out at the beginning of 2004.

The lack of an officially approved online identification system has slowed down the development of online services for the public. Preparation for offering online services has taken place at KELA for a long time. KELA, the Ministry of Labour and the National Board of Taxes have held negotiations on collaboration in constructing online services. As a result, the establishment of the so-called Katve Consortium was agreed upon with an aim to implementing an identification service as collaboration between the three parties. The collaboration of the Katve Consortium has been approved by Parliament. A question form on financial aid to students was the first online service provided by KELA at the beginning of 2004. The adoption of online services will expand in stages through 2004.

Performance-related remuneration is part of the management system of a modern-day organization, merging the organization's goals with an up-to-date pay system. The Board has decided to adopt a performance-related remuneration scheme as part of KELA's management system, with restricted trials being held in 2004 before it is introduced.

The pay schemes of salaried employees within KELA have been renewed. The Board has decided that the latest changes will affect the Director-General, Directors and Senior Officials, who will come under a new pay scheme in 2005.

KELA has participated in tests in transport chains since 1998. The objective has been to gain experience in how shared transportation and chaining it is able to curb the rise in travel expenses and in using the smart card in the reimbursement of travel costs. Trials will continue in the hospital districts of southern Ostrobothnia, Vaasa, Lapland, northern Karelia and northern Savo in 2004.

The Board has nominally approved the strategy for operating facilities.

Appointments

The Board appointed Dr Mikael Forss as a Director on November 1, 2003 for a fixed term ending no later than August 31, 2004. The Board has revised its decisions on the division of duties between the Director-General and Directors so that Dr Forss has been appointed the Director in charge of the research department and Matti Puhakka as the Director in charge of the information systems department, both from November 1, 2003 until no later than August 31, 2004.

The Board has appointed Sari Hänninen as District Manager of the Eastern Finland insurance district from August 1, 2003 and Kari Lindroos as Director of internal auditing.

Quality issues

As an essential part of the development of KELA's operations, quality issues have been incorporated into operational plans and performance agreements. Self-evaluations have brought up key strengths and helped to define areas that need to be developed further. The Director-General and Directors have headed the quality self-evaluation groups. A quality competition was arranged in 2003 among the KELA units, with the Tampere insurance district coming out as a winner.

Other issues

The Board has followed the progress and implementation of expansive, pragmatic presentations made in 2002 by working parties developing the service network and IT. According to KELA Barometer surveys and Gallup polls, which the Board has seen and discussed, KELA's customer service remains at the top of the league within the public sector. The work climate within KELA offices is friendly, employees have time to delve into customer issues and have the capacity to provide assistance. Further development is still needed in making explanations to decisions and claims forms more intelligible and in the process times for claims.

Funding

Overall KELA expenditure came to EUR 10,260 million. This comprises EUR 9,930 million in benefits and EUR 330 million in operating expenses. The total figure increased by EUR 270 million on 2002 (2.7%).

Total income came to EUR 10,307 million, an increase of EUR 307 million on 2002 (3.1%). This includes EUR 677 million in government liquidity guarantee payments to the national health insurance (NHI) fund.

National health contributions paid by the insured and employers' national pension and national health contributions accounted for 32% of total income. Government contributions accounted for 54%, those from municipalities for 3% and revenues from value added tax 10%. The rest comprised yield on assets, payments by the motor and accident insurance institutions and money recovered on account of non-primary liability.

Investments

An investment plan for KELA has been approved. The targets for its investments are: 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 of the national insurance fund and national health insurance fund focus on investing liquid assets. 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 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.

The trend on the Finnish stock market improved in 2003. The cyclical structure of the Finnish stock market and, in particular, the dominating position of basic industry and the mechanical engineering industry were forces affecting the strong rise.

There were no changes in the pension liability fund's shareholding in 2003. The market value rose by 14.8% from the end of 2002, while the return on investment was 16.6% for the year.

Dividend yields totalled EUR 31 million (EUR 33 million in 2002). The monthly current asset average was EUR 441 million (EUR 430 million in 2002). The average interest on current assets was 2.41% (3.23% in 2002) and interest yields totalled EUR 11 million (EUR 14 million in 2002).

Funding national pension insurance

National pension insurance (NPI) expenses totalled EUR 3,010 million and income EUR 3,182 million. Of total NPI income, 41% derived from employer contributions, 36% from government contributions and 22% from value added tax revenues. The percentage of income from contributions paid by employers decreased on 2002, 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.

Securing annual liquidity requires a certain minimum level for the national pension insurance fund, defined according to liquid assets. The minimum level set for the national pension insurance fund was exceeded in 2003, and EUR 248 million was transferred into the health insurance fund.

Funding national health insurance and rehabilitation

Total national health insurance expenditure in 2003 was EUR 3,165 million, of which rehabilitation costs were EUR 286 million. Total expenditure increased by 8.2% on 2002. Income for the year amounted to EUR 3,188 million, including a EUR 148 million transfer from the national pension insurance fund and a government liquidity guarantee payment of EUR 677 million for achieving the minimum level set for the health insurance fund.

Contributions paid by the insured and employers accounted for 61% of the national health insurance funding and value added tax revenues for 9%. The transfer from the national pension insurance fund covered 5% and the government liquidity guarantee payment 21%. The remaining income derived from insurance company payments, income from assets and recovery payments.

Funding other social security

Other social security benefit payments in 2003 totalled EUR 4,085 came from wage earners' unemployment insurance contributions.

Administration expenses totalled EUR 330.4 million. This includes a transfer of real estate valued at EUR 10.2 million to the pension liability fund to cover the employment pension liability. Administration expenses increased 5.3% on 2002, 2.0% without the transfer of real estate.

Wages and salaries accounted for EUR 153.4 million, an increase of 3.9% on the previous year. Staff-related costs totalled EUR 68.6 million (an increase of 47.3%). The rise is explained by the growth in pension liability fund contributions.

Other administrative expenses totalled EUR 62.2 million, a reduction of 14.7% on the previous year. The main item under this heading is IT costs. Income items reducing administrative expenses totalled EUR 15.7 million, an increase of 10.8% on the previous year.

The depreciation practice in the accounting underwent a change in 2003: the depreciation of machinery and equipment, computer software and renovation will be based on their economic life. This will apply only to new investment, which totalled EUR 0.5 million in 2003.

Purchased services came to EUR 46.2 million, which was about one per cent lower than in 2002. The largest item comprised tax costs paid to the tax administration.

Pension liability fund

KELA's actuarial liability for staff pensions totalled EUR 1,239 million at the end of the year, with expenditure on current pensions accounting for EUR 520 million. The full pension liability increased by EUR 63 million in 2003, because of pay and pension rises and an increase in pension accrual.

Covered pension liability of the total liability rose by 32.1% in 2003. In 2002, the coverage was 28.4%. 41% of the total pension liability must be covered by the end of 2010.

EUR 40.5 million in employer contributions was paid into the pension liability fund, including EUR 10.2 million in real estate value. In addition, employee contributions amounted to EUR 7.2 million, EUR 1.8 million of which was used to cover pension liability. Employment-based pension payments totalled EUR 43.6 million.

HEALTH INSURANCE PAYMENT CRITERIA FOR EMPLOYERS

% of wages subject to withholding tax

National pension insurance	2002	2003	2004
Private sector ¹			
Class I contributions	2,00/1,35 ²	1,35	1,35
Class II contributions	4,00/3,55 ²	3,55	3,55
Class III contributions	4,90/4,45 ²	4,45	4,45
Public sector			
Central Government and Åland	3,95	3,95	3,95
Municipalities and the Church	3,15/2,40 ²	2,40	2,40
Health insurance			
Private sector	1,60	1,614	1,614
Public sector			
Central Government and Åland	2,85	2,864	2,864
Municipalities and the Church	1,60	1,614	1,614

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

² As of March 1, 2002

HEALTH INSURANCE PAYMENT CRITERIA FOR THE INSURED

% of earnings subject to municipal tax

	2002	2003	2004
On earned income	1,50	1,50	1,50
Extra payment collected on pension income	0,40	–	–

OUTLOOK FOR 2004 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 the arrangement of new services in the future, too.

The client and social impact

KELA has a network of offices that covers the entire country: a total of 263 outlets providing a full service, secondary local-sub offices as well as an increasing number of various shared-service projects.

An office network covering the entire country is vital for KELA to ensure the implementation of large-scale social security services. The network is supplemented by various types of shared-service agreements. The electronic document management system allows the division of the workload equally between branches, insurance districts and insurance regions, providing the basis for maintaining an extensive service network.

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, online services are offered. Direct reimbursement systems will be developed. Data security is taken into special consideration in all services.

The development of customer services will receive increasing attention. It is vital that decisions are presented intelligibly and forms are simple to fill out.

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 legislative initiatives based on prognoses, estimates and research reports in order to participate actively in the development of social security.

Economics

In 2004, KELA's total income and expenditure are expected to reach EUR 10.6 billion, which is an increase of around 2.5% on the 2002 level in real terms. It is estimated that the NPI and NHI funds will need about EUR 850 million in government liquidity guarantees. Liquidity guarantee payments will increase by around EUR 170 million on 2003.

In 2004, the proportion of health insurance contributions by the insured in the funding of expenses will continue to fall slightly while employers' insurance contributions will remain the same. The revenue KELA will receive from value added tax will remain the same as in 2003, EUR 1.0 billion.

Over the next few years, payment of health insurance benefits — particularly daily sickness allowance and reimbursement of medicinal products — will increase at a faster rate than the payment of other benefits. Unless the level of benefits is raised in real terms, 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 2003.

The starting point of the pending reform for funding health insurance has been a report on national insurance and health insurance funding by a working group of government officials (Ministry of Social Affairs and Health, Working Group Memo 2003:14). The working group proposed that health insurance contributions should be defined in a fixed way. A significant change would be that expenses would be mainly funded by revenue from contributions.

According to the government programme of Prime Minister Matti Vanhanen, the funding of health insurance will undergo reform as stated in the proposal of the working party of government officials, and details will be prepared in tripartite cooperation.

The key principle of the funding reform is that health insurance is divided into earnings-related insurance and medical insurance. The earnings-related insurance would be funded through employer, employee and entrepreneur contributions. The contributions of employees and entrepreneurs would be tax deductible. The medical insurance would, on the other hand, be financed through medical insurance contributions and government funds.

Value added tax would no longer be used for the health insurance fund. Similarly, funds transfers would no longer be made between the health insurance and national pension funds.

In the same connection, whether the net fund assets of the health insurance fund at its current minimum level of 8% is sufficient or whether an adjustment is required would be looked into.

The health insurance funding reform is planned for implementation from the beginning of 2005.

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 well-being, maintain job satisfaction by promoting meaningful work and a smoothly operating work community, improve the induction of new employees, and strive for a good balance between work loads and resources.