

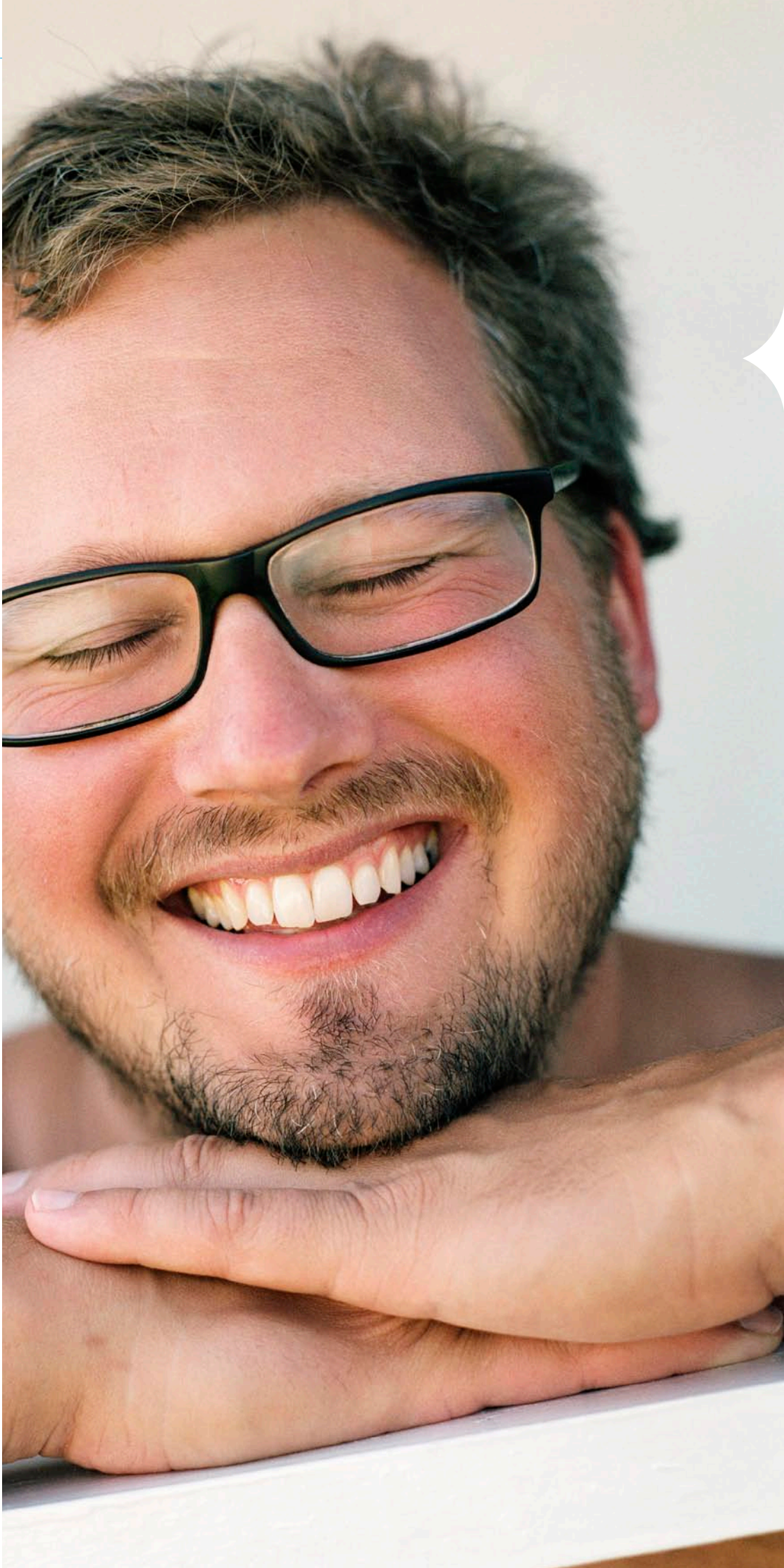
Annual Report 2006





Contents

Kela – a service for everyone	3
Kela in 2006	3
Benefits paid by Kela	5
National pension security and disability benefits	5
National health insurance	6
Rehabilitation	7
Unemployment security	7
Benefits for families with children	8
Financial aid to students	8
General housing allowance	8
Other benefits	8
Recovery	9
Other Kela operations	11
Customer service and the service network	11
Personnel and training	11
Data processing	12
Communications	12
Statistics and calculations	13
Research and development	13
Information services	13
International cooperation	13
Rehabilitation centre Petrea	13
Financial statements	14
Operating report by the board of Directors	14
Outlook for the future	18
Kela's administration	19
Kela organization	22
Contact information	22



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 provided by Kela includes national pension and general survivors' pension, disability benefits, health insurance benefits, rehabilitation benefits, basic security benefits for the unemployed, child care allowances, family allowances, maternity grants, student benefits, general housing allowances, conscript's allowances and special assistance for immigrants.

Supervised by parliament

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

Close to the client

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.

Mission and values

Kela's mission statement:

With you throughout life – supporting you through the times of change

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

Kela's operations are based on the following values:

Respect for the individual

Expertise

Cooperation

Renewal

KELA IN BRIEF

	2002	2003	2004	2005	2006
Overall expenditure, EUR billion	10,0	10,3	10,6	10,7	10,8
Benefits, EUR billion	9,7	9,9	10,2	10,4	10,5
Administration expenditure/					
Total expenditure, %	3,1	3,2	3,3	3,1	3,3
Benefits/GDP, %	6,7	6,8	6,7	6,6*	6,2*
Benefits/social expenditure, %	26,2	25,6	25,2	24,7*	24,2*
Benefits/Insured person,					
EUR/year	1 859	1 902	1 951	1 977	1 985*
Staff on December	6 124	6 171	6 082	6 095	5 973

*Estimate

KELA IN 2006

Kela's overall expenditure amounted to EUR 10.8 billion, benefit expenditure accounted for EUR 10.5 billion of this figure. Total expenditure increased by one per cent on the figure for the previous year. Administrative expenses accounted for 3.3 % of total expenditure. 59% of Kela funding came from central government and insurance payments made up 35%.

Most Finns received some form of Kela benefits. Health insurance benefits were paid to 4.0 million people and unemployment benefits to 0.3 million people. At year end, the number of pension recipients was 0.8 million and family allowance was being paid for 1.0 million children.

Kela started to develop its telephone service for consumers so that it is provided to people all over the country through the Kela Customer Contact Centre. Units providing a service in Finnish were set up in Joensuu and Lieksa and a unit providing a service in Swedish was set up in Pietarsaari.

2006 was a theme year for customer service. The customer service training provided to every member of the Kela personnel as part of the customer service development programme 2005–2008 was continued so that by the end of March 2006 practically everyone had participated. After the seminars, the development work has been continued in the workplace communities and has also been supported with process training. The development programme aims to support the implementation of consistent principles and working methods in customer service.

Customer service development proposals were collected at the personnel seminars and they will be used in the preparations that commenced in March for the programme to develop customer service operations at Kela. The key issues in the development programme are defining the principles of good service, developing customer segmentation and the service channels, planning the future service network, and developing the application process and the organization of customer services.

Kela's main office building was 50 years old in June. An illustrated work of the architecture of Alvar Aalto who designed the building was compiled in honour of this anniversary. The book is called Elevating the everyday (Ylevöittää arjen in Finnish and En arkitektur som förgyller vardagen in Swedish).



BENEFITS PAID BY KELA

All benefits

Kela's benefit payments were EUR 10.5 billion. They grew nominally on the previous year by 0.8% and decreased in real terms by 1.0%. There were 63 million payments of which 21 million came from pharmacies. Of the benefits, health insurance benefits increased the most (5.4%). Unemployment security benefits decreased 10.7%.

Benefits paid by Kela	2006 EUR million	2005 EUR million	Change%
Pensions and disability benefits	2 886,9	2 869,0	0,6
Health insurance benefits	3 214,5	3 050,0	5,4
Rehabilitation benefits	288,6	284,6	1,4
Unemployment security benefits	1 014,1	1 135,4	-10,7
Benefits for families with children ¹	1 825,2	1 832,5	-0,4
Financial aid for students	736,9	728,2	1,2
General housing allowance	439,4	436,9	0,6
Other benefits	65,9	54,8	20,3
Benefits total	10 471,6	10 391,4	0,8

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

National pension security and disability benefits

Pension payments totalled EUR 2,779 million i.e. EUR 17.9 million (0.6%) more than in 2005. The growth was a result of the 1.1% index increase at the beginning of the year and the increase in the national pension from September. Disability benefit payments totalled EUR 108 million which is equal to the figure for the previous year.

The number of pension recipients was 788,000 at the end of the year, i.e. 0.7% fewer than the previous year. The number of old-age, survivors', unemployment and disability pension recipients continued to decrease. However, the number of people only receiving pensioners' housing allowances, pensioners' care allowances, child increases or front-veterans' supplement grew. The number of people receiving housing allowance and pensioners' care allowance as national pension increased while the number of people receiving national pension (reducible by earnings-related pension) and the front veterans' supplement decreased. The number of people receiving the full national pension was 94,500 (a decrease of 2.6%).

The number of recipients of child care allowance decreased by 400 (1.1%) to 37,400 at the end of the year. The number of people receiving disability allowance increased by 1.7% to 27,100 at the end of the year. As was the case in the previous year, the increase was due to the rise in the recipients of the diet allowance. The diet allowance was being paid to 23,600 people at year end either as pensioners' care allowance or disability allowance, which is 6.1% more than the previous year. Kela received a total of 388,000 (decrease of 4.5%) claims for pension, pension addition, disability allowance or benefit adjustment. Altogether 20,000 (5.2%) were claims from abroad, submitted on the basis of an EC regulation or social security conventions. Of all the applications, 35% were claims for new pensions or disability allowances. Of the 378,000 claims that were settled 335,000 were dealt with at Kela branch offices and 44,000

by central administration. 353,000 of the claims settled were from Finland and 26,000 from abroad. The average processing time for international claims was 43 days. The average national pension at the end of the year was EUR 298 per month, including front-veteran's supplement. The national pension of a single person entirely dependent on national pension was EUR 516 per month in the first municipal cost-of-living category. The average housing allowance received by pensioners was EUR 150 per month.

Pensions and disability benefits

Pensions	2006 EUR million	2005 EUR million	Change-%
Pensions paid	2 778,8	2 760,9	0,6
National pensions ¹	2 661,7	2 635,4	1,0
Old-age pensions	1 724,0	1 735,6	-0,7
Under-65s	7,2	7,0	2,5
Disability pensions	783,9	756,9	3,6
Individual early retirement pensions	3,3	4,9	-31,7
Unemployment pensions	46,3	46,4	-0,2
Other ²	107,5	96,5	11,4
Survivors' pensions	37,3	37,9	-1,6
Front-veterans' supplements	79,7	87,6	-8,9
Other benefits	4,7	4,2	12,1

Number of pensioners	31.12.2006	31.12.2005	Change-%
Pensioners total	787 800	793 400	-0,7
National pension recipients	755 800	760 300	-0,6
Old-age pension recipients	477 900	482 700	-1,0
Under-65s	3 800	4 100	-8,6
Disability pension recipients	154 800	154 900	-0,1
Individual early retirement pensions	1 200	2 200	-42,2
Unemployment pension recipients	20 500	21 600	-5,4
Other ³	102 700	101 100	1,6
Survivors' pension recipients	32 000	33 000	-3,1

Structure of national pensions	31.12.2006	31.12.2005	Change-%
National pension recipients total	653 200	659 300	-0,9
full	94 400	97 000	-2,6
reduced by employment	558 700	562 300	-0,6
other national pension ³	102 700	101 100	1,6
National pension recipients with			
housing allowance	172 900	170 300	1,5
pensioners' care allowance	197 500	189 700	4,1
front-veterans' supplement	84 800	94 200	-10,0
front-veterans' additional supplement	42 200	47 600	-11,4
child increase	13 700	13 800	-1,0

¹ Includes the housing allowances and child increases paid to the long-term unemployed.

² Pensioners' housing allowances, pensioners' care allowances and child increases paid by Kela to people with no actual pension.

³ The person receives pensioners' housing allowances, pensioners' care allowances and front-veterans' supplement or child increases from Kela either on its own or in conjunction with special assistance for immigrants/pension assistance for the long-term unemployed

Disability benefits

Allowance paid	2006 EUR million	2005 EUR million	Change-%
Child disability allowances	72,8	72,7	0,2
Disability allowances	35,3	35,4	-0,2

Number of persons receiving	31.12.2006	31.12.2005	Change-%
Child disability allowances	37 400	37 800	-1,1
Disability allowances	27 100	26 600	1,7

National health insurance

Health insurance benefit expenditure grew by EUR 164 million on the previous year (5.4%). Kela paid out EUR 3,214 million in health insurance benefits, which were received by 4.0 million people (an increase of 5.0%).

The reimbursement of medical expenses grew by 3.3%. Daily sickness allowance increased by 6.3% and daily parental allowance by 8.7%. Annual leave expense compensation that is part of parental allowance was paid out to the employers of 20,100 employees and totalled EUR 32,7 million (an increase of 45.6%). The increase in annual leave expense compensation was a change in the legislation from the beginning of 2005, which meant that the parental allowance that is the basis for this annual leave expense compensation was increased.

An amendment to the Sickness Insurance Act meant that from the beginning of April the sickness allowance for persons insured under the Self-Employed Persons Pensions Act (YEL), was also paid during the waiting period. The amendment concerns periods of work incapacity that commenced on 1.1.2006, or later. Daily sickness allowance for persons insured under the Self-Employed Persons Pensions Act (YEL) was paid to 13,100 entrepreneurs totalling EUR 3.4 million.

The average amount of daily sickness allowance was EUR 45 and daily parental allowance EUR 43. The minimum daily allowance was EUR 15.20 /day. Daily sickness allowance of the minimum amount or less was paid to 16,400 people (4.7% of the recipients of daily sickness allowance). Earnings-based daily parental allowance of the minimum amount was paid to 17,600 mothers (17.6% of mothers receiving daily parental allowance).

The number of fathers who took advantage of the extended paternity allowance (so-called father's month) was 5,100 fathers (an increase of 600). They received EUR 4.0 million in daily parental allowance.

The number of daily sickness allowances settled was 690,000 (an increase of 3.7%). Of these 40,000 were settled in employee sickness funds. The average processing time for new claims was 14 days, which was the same as for the previous year. A total of 9.3 million settlements for reimbursements for medical expenses were made, 0.4 million of these were made in employee sickness funds. The average processing time for claims was 13 days.

Of the reimbursements for medical expenses, the reimbursement of medicine costs grew 2.3% (6,1 % during the previous year). The reimbursement of medicine costs was reformed after the Sickness Insurance Act was amended at the beginning of the year, and a trial

was carried out on reimbursing the costs of dose dispensing services. The percentage of costs reimbursed for both basic and higher reimbursement classes of medicines has changed and the fixed personal liability per purchase was abolished. A drug-specific personal liability was introduced for medicines that come under the higher special reimbursement class and for additional reimbursements.

The number of people receiving basic compensation for medicine costs increased 11.8% – this was partly due to the reform of the system of reimbursement for medicine costs. The number of those claiming special compensation rose by 1.2%. The number of people receiving additional compensation for medicine costs decreased by 1.2%. Reimbursement of costs for dose dispensing was paid to 1,600 people at a total of EUR 40,000.

EUR 92 million was paid out in reimbursements for dentists' fees in 2006 which was approximately the same amount as for the previous year. Reimbursements for dental care were paid to 1,019,000 people (0.3% increase).

Reimbursements for doctors' fees increased by 1.5% and reimbursements for examination and treatment costs by 8.2%. The number of persons receiving reimbursements also increased. Reimbursements for travel costs increased by 10.7% on the previous year. This also includes reimbursement for travel provided as part of rehabilitation.

Health insurance benefits	2006 EUR million	2005 EUR million	Change-%
All	3 214,5	3 050,0	5,4
Daily allowance	1 483,6	1 380,5	7,5
Daily sickness allowance ¹	755,7	711,1	6,3
Daily parental allowance ²	727,9	669,4	8,7
Medical expenses compensation	1 496,8	1 449,4	3,3
Medicines	1 100,3	1 076,1	2,3
Basic compensation	366,6	369,9	-0,9
Special compensation	619,7	607,5	2,0
Lower	226,4	237,4	-4,6
Higher	393,3	370,1	6,3
Additional compensation ³	114,0	99,5	14,6
Private doctors' fees	63,4	62,5	1,5
Private dentists' fees	91,6	91,5	0,1
Private examination and treatment	60,1	55,5	8,2
Travel and transportation ⁴	181,4	163,9	10,7
Other benefits	234,1	220,1	6,4

¹ Also includes daily sickness allowance for persons insured under the Self-Employed Persons Pensions Act (YEL), daily sickness allowance under the Pension Institute of Farmers, daily allowances and loss-of-earning compensation paid under the Act on Communicable Diseases, 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 2006, the maximum level of personal liability for the cost of medicines was EUR 616.72.

⁴ Includes additional compensation for travel. In 2006 the maximum level of personal liability for the cost of travel was EUR 157.25.v

Reimbursement of occupational health care expenses paid to employers came to EUR 196 million (increase of 10.3%). Approximately 1.7 million employees came under the sphere of occupational health care. Reimbursement of occupational health care expenses paid to entrepreneurs and other self-employed persons stood at EUR 1.1 million. Reimbursements totalling EUR 20.8 million were paid to the Student Health Foundation.

Recipients of health insurance benefits	2006	2005	Change-%
All benefits	4 043 100	3 849 900	5,0
Daily sickness allowance ¹	348 800	345 300	1,0
Daily parental allowance ²	149 000	146 600	1,6
Medical expenses compensation	3 990 800	3 783 200	5,5
Medicines	3 584 700	3 261 500	9,9
Basic compensation	3 465 400	3 100 200	11,8
Special compensation	1 098 500	1 085 800	1,2
Lower	833 700	828 200	0,7
Higher	468 300	454 500	3,0
Additional compensation	165 600	167 600	-1,2
Private doctors' fees	1 523 900	1 491 400	2,2
Private dentists' fees	1 019 200	1 016 400	0,3
Private examination and treatment	895 400	849 300	5,4
Travel and transportation	644 700	623 900	3,3

¹ Does not include those who have only received daily sickness allowance under the Self-Employed Persons Pensions Act (YEL).

² Recipients of daily parental allowance (does not include recipients of special care compensation, or persons whose employees have been paid compensation for annual leave costs).

Rehabilitation

Kela's rehabilitation expenditure totalled EUR 289 million, which was 1.4% more than the previous year. The cost of individual rehabilitation was EUR 282 million, EUR 222 million of which was paid on rehabilitation (an increase of 1.0%) and EUR 60 million on rehabilitation allowances (an increase of 1.1%).

Kela's rehabilitation services were spread over 88,400 people (an increase of 1.1%). Half of these were new rehabilitees. Rehabilitation allowance, which is paid as income security for the duration of the rehabilitation, was paid to 61,500 people (a decrease of 0.7%). Out of all the recipients of rehabilitation allowance, 71% (43,500) were in rehabilitation provided by Kela. Rehabilitation allowance was paid for an average of 36 days, and totalled about EUR 27 per day.

Over half of the of rehabilitation arranged by Kela constitutes discretionary (medical) rehabilitation and was received by 52,500 people. Vocational rehabilitation was received by 16,400 people with reduced functional capacity and 21,400 severely disabled persons received medical rehabilitation.

With 14,800 persons taking part, ASLAKÆ_ courses (vocationally oriented medical rehabilitation) were the most common measure for discretionary rehabilitation. Courses designed for various types of illnesses were attended by 12,000 people. Discretionary psychotherapy was received by 11,100 rehabilitees, 3,600 of whom took part in psychiatric rehabilitation for children and young people

(16–25 years of age). Periods of treatment at rehabilitation centres were organized for 3,800 people. 2,400 rehabilitees took part in rehabilitation development projects.

Unemployment security

Kela's unemployment benefits expenditure decreased by 10.7% totalling EUR 1,014 million, of which EUR 860 million was paid as labour market subsidy (a decrease of 11.5%) and EUR 109 million in basic daily allowance (a decrease of 7.8%). In addition to the improvement in the employment situation, the decrease in labour market subsidy has also resulted from the fact that labour market subsidy paid as combined subsidy will be gradually phased out. Unemployment security which has been provided by employment offices since the beginning of the year replaced the combined subsidy which is no longer provided.

Unemployment benefits were paid to 286,600 people during the year, with benefits paid for an average of 142 days per recipient. Basic daily allowance was paid to 49,900 people (a decrease of 5.4%) and labour market subsidy to 224,400 people (a decrease of 6.7%). In addition, labour market subsidy was paid as combined subsidy to the employers of 17,400 long-term unemployed people (a decrease of 50.1%) and integration allowance was paid to 10,800 immigrants (an increase of 1.9%).

Altogether, 74,900 of those receiving labour market subsidy took part in labour market training, trainee work or other labour market programmes during the year. In addition, 6,500 recipients of labour market subsidy participated in rehabilitation work and 1,000 received a labour market subsidy in the form of travelling allowance. 9,300 of those receiving integration allowance participated in labour market activities or equivalent measures. 28.9% of labour market subsidy was paid for the duration of activities under labour market programmes.

The average basic daily allowance under employment security was EUR 22.70 while the average daily labour market subsidy was EUR 24.80. An adjusted daily allowance was paid for at least part of the year to 24.8% of daily allowance recipients and 13.3% of those receiving labour market subsidy.

Labour market training support was paid to 6,100 people. 36,000 recipients of labour market subsidy and 6,000 recipients of integration allowance participated in labour market training. A total of EUR 41 million was granted in training benefits. EUR 4 million was paid in daily training allowance to 1,200 people.

Kela took a total of 841,000 decisions on claims for unemployment security (a decrease of 7,1 %). 227,000 new claims were settled, and the average processing time was 15 days. Of the new claims, 85% were settled within four weeks of the application's arrival.

Benefits for families with children

Expenditure on child day-care subsidies decreased by 0.5%. A total of EUR 395 million was paid out in subsidies, of which EUR 336 million in child home care allowance (a decrease of 1.1%), and EUR 50 million in private day-care allowance (an increase of 3.9%) and EUR 9 million in partial care allowance was paid out. Municipal supplements amounted to EUR 59 million.

Child home care allowance was paid to 116,500 parents of 179,800 children (an increase of 1.0%). There were 19,300 recipients of private day-care allowance (an increase of 5.2%) and 19,100 people received partial care allowance (an increase of 1.1%).

Maternity grants totalling EUR 10.8 million were paid (a decrease of 2.1%), including adoption grants of EUR 0.7 million for offsetting some of the costs of international adoption. Maternity grants were paid to 57,800 parents, 208 of whom also received adoption grants.

The total amount of family allowance paid was EUR 1,419 million (a decrease of 0.4%). In December, family allowance was paid to 568,300 families (a decrease of 0.2% on last December), with increased family allowance paid to 100,200 single-parent families. Family allowance was paid for 1,030,700 children, and the increased family allowance for 155,100 children.

Financial aid to students

Student benefits totalled EUR 706 million (an increase of 0.8%), of which EUR 416 million (a decrease of 3.1%) was for study grants and EUR 251 million (an increase of 8.2%) for housing supplements. Interest subsidy and interest allowance for study loans totalled EUR 1.5 million, payments made on the basis of government guarantees for student loans EUR 18 million and meal subsidy for students in higher education EUR 21 million.

Student benefits were paid to 324,100 students. Of these, student benefits were paid to 314,600 (a decrease of 1.9%) and housing supplement to 218,400 (a decrease of 1.7%). Government guarantees were approved for a total of 132,300 (a decrease of 2.4%) students. Interest allowance was paid to 7,500 people, which was one-fifth lower than the previous year.

Student loans totalled EUR 1.3 billion at year end (an increase of 0.8%). There were 309,200 students with student loans (a decrease of 2.8%). The average loan was EUR 4,300.

Decisions on financial aid claims totalled 409,100, 194,600 of which were processed at Kela branch offices (an increase of 10.0%), 90,200 at the Kela Student Financial Aid Centre (a decrease of 18.7%) and 124,300 at university and polytechnic financial aid centres (a decrease of 8.1%).

School transport subsidy reached a total of EUR 31 million (an increase of 9.9%) for the transport costs of 65,200 students. Matkahuolto Ltd invoicing accounted for 69% of the total.

General housing allowance

General housing allowance totalled EUR 439 million, a 0.6% increase on the previous year. At year end, households receiving housing allowance numbered 150,200 (a decrease of 3.0%). The total percentage of families with children was 39.7 and single-parent families made up a good quarter of the households. The percentage of single people increased and was 53.2 at year end. General housing allowance covered just under 300,000 people at the end of the year, making up 6.8% of the population under 65.

The number of unemployed households was 96,400, or 64.2 %, which was a decrease of 0.4 percentage points. Labour market subsidy or basic unemployment allowance made up the income for over half of the households. At the beginning of March 2006 a reform was introduced to improve the employment prospects of those receiving benefits. The reform states that the housing allowance eligibility review can be put off for three months after a long-term unemployed member of a household has found employment. There have been 2,400 such cases, i.e. a fifth of all the decisions regarding an increase in income.

The average housing allowance at year end was EUR 230. a month. The average income per household was EUR 731 a month, and housing expenditure was EUR 444.

During the year under review, Kela took 394,100 decisions on claims for general housing allowance, taking into account decisions for discontinuation (a decrease of 2.7%). The average processing time for claims was 19 days.

Other benefits

Expenditure on conscript's allowances increased by 8.7% on the previous year. A total of EUR 17 million, was paid and housing assistance accounted for EUR 15 million of this. Conscript's allowances were paid to a total of 12,400 households. When other family members are included, the allowances covered a total of 13,000 people. Of the recipients, 10,400 were doing their military service, 1,100 were performing non-military service and 970 were relatives. Recipients of conscript's allowance had a total of 280 children.

Compensation for the rehabilitation travel expenses of front veterans came to EUR 1.0 million. Studies on farmers' working conditions were funded to a total of EUR 0.8 million and the National Centre for Agricultural Health, which operates under the Institute of Occupational Health, was reimbursed a total of EUR 0.2 million.

In 2006, special assistance to immigrants was paid to 4 500 people, totalling EUR 19 million. The average amount of assistance paid was EUR 347 per month.

The long-term unemployed received EUR 24 million in pension assistance. By the end of 2006, 2,600 people were receiving this assistance. The average amount of assistance paid was EUR 709 per month.

Recovery

The number of benefits claimed for recovery at year end (including those recovered on the basis of evaluation of financial situation) was EUR 116.6 million (an increase of 2.1%). The amount of outstanding student loan guarantee payments for recovery was EUR 180 million at year end (a decrease of 0.9%).

Other benefits	2006 EUR million	2005 EUR million	Change-%
Rehabilitation	288,6	284,6	1,4
Rehabilitation services	224,3	220,0	2,0
Rehabilitation allowance	59,9	59,2	1,1
Other expenditure	4,5	5,4	-17,2
Unemployment protection ¹	1 014,1	1 135,4	-10,7
Basic unemployment allowance ²	109,4	118,7	-7,8
Labour market subsidy ³	859,5	971,7	-11,5
Labour market training ⁴	41,3	41,5	-0,4
Daily training allowance	3,5	3,3	5,6
Maternity grant	10,8	11,0	-2,1
Family allowance	1 419,4	1 424,4	-0,4
Child day-care subsidies	395,0	397,0	-0,5
Statutory allowance	336,3	340,0	-1,1
Municipal supplements	58,7	57,1	2,9
General housing allowance	439,4	436,9	0,6
Student benefits	736,9	728,2	1,2
Conscript's allowance	16,6	15,2	8,7
Special assistance for immigrants	18,7	17,0	10,3
Pension assistance for the long-term unemployed ⁵ (from 1.5.2005)	23,9	16,1	48,2
Others	2,0	2,2	-10,7

¹ Includes job alternation compensation plus supplements and labour market training subsidy.

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

³ Includes integration allowance and combined subsidy.

⁴ Includes maintenance allowance paid during training support and labour market training.

⁵ Housing allowances and family allowances associated with pension assistance are included in the pensions.

Recipients of other benefits	2006	2005	Change-%
Rehabilitees	106 500	105 100	1,3
Rehabilitation services from Kela	88 400	86 800	1,9
Rehabilitation allowance from Kela	61 500	62 000	-0,7
Unemployment protection			
Basic unemployment allowance/ or labour market subsidy	266 900	285 600	-6,6
Basic unemployment allowance	49 900	52 800	-5,4
Labour market subsidy	224 400	240 600	-6,7
Labour market training	36 000	34 900	3,3
Training/Instruction for working life	42 200	41 200	2,5
Rehabilitation work	6 500	4 700	38,1
Travelling allowance	1 000	700	52,5
Labour market subsidy as combined subsidy	17 400	34 900	-50,1
Labour market training support	6 100	6 200	-1,8
Daily training allowance	1 200	1 100	4,7
Labour market subsidy as integration allowance	10 800	10 600	1,9
Maternity grant (families)	57 800	56 900	1,6
Family allowance			
Families (Dec 31.)	568 300	569 600	-0,2
Children (Dec 31.)	1 030 700	1 034 400	-0,4
Child day-care subsidies			
Families	145 500	143 800	1,2
Children	214 900	212 700	1,0
General housing allowance (households Dec 31.)	150 200	154 800	-3,0
Student benefits			
Financial aid to students	288 100 ¹	292 900 ²	-1,7
School transport subsidy	51 000 ¹	49 600 ²	2,8
Conscript's allowance (households)	12 400	12 200	1,5
Special assistance to immigrants (Dec 31.)	4 500	4 100	10,5
Pension assistance for the long-term unemployed (Dec 31.)	2 600	2 800	-8,9

¹Academic year 2005/2006.

²Academic year 2004/2005.



OTHER KELA OPERATIONS

Customer service and the service network

At year end, Kela's five insurance regions comprised 61 insurance districts. There were 306 branches in different parts of Finland providing client services; 263 of these were full-service offices with daily office hours, while 43 were sub-offices with restricted office hours. Kela was also involved in 145 joint-service projects.

Kela offices on December 31, 2006

Insurance region	Full-service offices	Sub-offices	Total offices
Northern Finland	43	17	16
Western Finland	43	8	49
Eastern Finland	56	16	30
Southwestern Finland	52	0	31
Southern Finland	69	2	19
Total	263	43	145

The process of increasing the size of Kela's insurance districts continued during the year and a total of 14 insurance districts were merged. The process of distributing the workload more evenly continued by transferring work from overworked offices to other offices. Kela took part in various projects to develop online services. The work to develop Kela's telephone service for consumers into a national service at the Kela Customer Contact Centre was started. The offices received 93,100, claims for employment pensions, which is 2.7% fewer than the previous year. Kela's customer feedback system was contacted over 5,000 times.

On the basis of a customer questionnaire given to people visiting Kela offices over the period May 2 to 5, 2006 (16,550 respondents) Kela's services were awarded the general grade of 8.9, according to the school grade system. As has been the case in previous years, customers were most satisfied with the friendly service provided. Customers were also satisfied with the advice that was provided: 94% of respondents felt they had been provided with sufficient information on the issues that had prompted their visit to the office. Half of all respondents had come to the office to hand in an application form.

Personnel and training

At the end of 2006, the number members of staff working for Kela had decreased by 122 compared with the previous year and at the turn of the year this figure decreased even more. The personnel age structure and increased numbers of people retiring has made it possible to adapt the number of personnel to the development of operations and working methods.

An extensive programme to develop personnel data systems was launched during the year under review as part of the complete reform of the enterprise resource planning system. New processes and their information systems were planned and taken into use to maintain the basic information of the personnel, the surveying of

skills and time management. The 'Tahti' system was taken into use in November and once it is finished it will have an impact on practically all personnel operations.

The development of health promotion at work was continued according to the TAIKA operational model. The units planned activities that were more obviously focussed on issues associated with working. The new focus areas for 2006–2009 were defined as skills, organization of work and ageing. An operational model was created to support well-being at work to deal with problems that jeopardize working capacity. Fitness vouchers were taken into use to promote self-motivated fitness.

An equality plan was drawn up for 2007–2010. It aims to actively promote equality in its benefits operations and customer services and as an employer. Gender equity and equality has an effect on all personnel operations, particularly conditions of employment, recruitment and career advancement.

Kela held a record number of training days and events and never in its entire history of providing training has Kela provided as much training as it did in 2006. A total of 954 training courses were held during the year (798 in 2005) and they were attended by 18,309 people (16,824), totalling 23,168 (20,331) course days.

One of the focus areas in skills development was supporting expertise in benefits. A comprehensive long-term plan which includes training products for the maintenance and development of benefits expertise for customer service and decision-making was drawn up.

Customer service training was continued. Concrete measures to improve customer services were drawn up for the follow-up work to be carried out in the various units.

Implementation of the first phase of the Tahti system was supported by extensive training, which focussed on the functionality and processes of the systems various areas and preparation was provided for using the system.

Personnel figures 2006

Numbers of personnel	2005	2006
Entire personnel	6 095	5 973
Full-time	5 150	5 067
Part-time	945	906
Permanent members of staff	5 575	5 525
Full-time	4 699	4 647
Part-time	876	878
Permanent members of staff		
Local administration	3 915	3 777
Central administration	1 309	1 264
Regional administration	351	484

Information on permanent members of staff	2005	2006
Average age	47,2	47,5
Educational level index	4,9	5,0
Number of training course days/person	3,6	3,6
Sick days index	4,0	4,2
Members of staff leaving Kela	237	389
New members of staff	273	205
Retirement age	61,4	61,8
Members of staff taking old-age pension	96	104
Members of staff taking disability pension	50	52

Data processing

A data processing action plan for 2007–2011 was drawn up in conjunction with Kela's customer service strategy.

New e-transaction services for consumers and officials were launched according to plan. Kela's first self-service applications were implemented to assist consumers when providing information on their details for study grants and unemployment benefits and to automate and make the processing of benefits decisions easier. An online service was created for employers so that they can inform Kela of salary details, for example. A service was set up in cooperation with the Finnish Centre for Pensions enabling old-age pension to be applied for online. Kela also took part in the development of electronic identification of administrators. International online data communications was also extended.

Legislation reforms meant that changes had to be made to many applications for the processing of benefits. The most significant legal reforms were the increase in the national pension, the increase in parents' income level regarding eligibility for financial aid for students and changing payment of partial daily sickness allowance and reimbursement of medical expenses from the 'power of attorney' system to a system of direct reimbursement. The standardizing of applications for the processing of benefits was continued. An application to support the processing of benefits and customer service (OIWA) was launched.

The first phase of the total reform of applications for financial, materials and personnel administration and their user environments were taken into use and the second phase was implemented. New statistics were produced for the Kelasto reporting system according to plan.

The legislation needed for the development of online social and healthcare services started to be prepared from the spring onwards. Kela was given the task of implementing the necessary information technology services required for the new law on the electronic processing of data concerning social and healthcare clients and the new law on the use of e-prescriptions. The preparations are being carried out alongside the preparations for the laws so that the services can be launched in 2008.

The mainframe computers were replaced on October 1, 2006. The capacity of the computers could be decreased because some of the services, such as e-mail, were transferred from the mainframe computers to Windows and Linux servers operating on x86/64 technol-

ogy. Also the use of the resources in the browser-based online document management application that was introduced at the beginning of the year was clearly lower than predicted. The total number of e-transactions within Kela reached 1.65 billion.

A decision was made at the beginning of the year to completely update the workstations and data communications network. There are approximately 6,800 workstations in use now.

Communications

The updating of the Kela website was started in November 2006. This project will continue until 2008. During the year under review there were 5.9 (4.9) million visitors to the kela.fi website and e-transactions were made by over a million identified users. The number of e-transactions increases significantly every time a new service is taken into use.

A total of 18 million messages were sent via e-mail and 20.4 million documents were sent to customers. About 90 media bulletins were issued. In addition, a total of 9 briefings, meetings with reporters and gatherings for interest groups were arranged.

During the year under review, Kela published four issues of *Kelan sanomat* and *FPA-bladet*. The former was sent to all Finnish-speaking households (about 2.3 million copies per issue) and the latter to Swedish-speaking and bilingual households (about 170,000 copies). There were 10 issues (11,500 copies each) of the magazine *Yhteispeli* and six (17,000 copies each) of *Sosiaalivakuutus*.

The Finnish and Swedish brochures on basic social security (10 brochures) and the English-language brochure 'A Guide to Benefits' was updated. The latest *Kelainfo* brochures were published: *Lääkkeiden korvaukset muuttuvat 1.1.2006* (Refunds on medicines will change from October 1, 2006), *Yrittäjän päiväraha ja muu Kelaturva* (Entrepreneur's daily allowance and other security provided by Kela), *Työttömyysturvan sähköinen asiointipalvelu* (Online services for unemployment security benefits) and the *Osasairauspäiväraha työhönsä palaavalle* (Partial daily sickness allowance for those returning to work) and *Suorakorvaus 1.1.2007* (Direct reimbursement January 1, 2007), brochures which provide information on the reforms that will take place in 2008. Almost 2.4 million brochures were distributed to customers. Kela participated in compiling and funding of a guidebook for social security for temporary workers (*Keikkatyöläisen sosiaaliturvaopas*) and has continued to cooperate in setting up a website on social security for entrepreneurs, a brochure on working abroad (*Työkommennus ulkomailla*), and private households as employers (*Kotitalous työnantajana*) and a guide to services for the visually impaired (*Näkövammaisten palveluopas*).

Kela was represented at the Finnish Medical Convention, at the Child 2006 fair in Helsinki in May, the Farmari Agricultural Fair in August in Seinäjoki, the Job Fair Europe and Expat Fair Finland in Helsinki in September, the Studia 2006 study fair in October-November and the *Rekisterit auki!* register day event in Helsinki in November.

Statistics and calculations

The development work on statistical architecture was continued by completing the data content of the Kelasto browser-based system. The claims processing section was completed. The data on the health situation of the municipalities from the 'health barometer' were entered into Kelasto as dynamic reports and interactive maps. Once the reports were published on the Kela website it was possible for individuals to access this data.

A total of 14 printed statistical publications were produced. In addition to this four publications were produced, two together with the Finnish Centre for Pensions, one with the National Agency for Medicines and one with the Insurance Supervision Authority. All of the printed statistical publications were published on the Kela statistics pages on the Internet. The Statistical Yearbook was also published on the Internet for the first time. The work to improve the quality of the statistics progressed. A summary of the quality of each of the 24 statistics produced by Kela was compiled and published on the Internet. The Statistical Yearbook which comprises all of Kela's statistics was included as part of the official statistics of Finland.

The annual actuarial liability calculations for Kela social security were compiled for the Ministries. Forecasts, calculations and analyses were obtained for the development and implementation of social security. The Population projection and Actuarial reports on the long-term forecasts for development of the social security provided by Kela were published. The internal operations of Kela were also supported by the production of forecasts and calculations to be used by Kela's own units. Calculation systems were updated and the changes required by the financial reform for health insurance and legislation were implemented.

Research and development

During the year under review, research was increasingly focussed on the benefits and services provided by Kela, and on research into its own operations. During the year, rehabilitation, medicine costs and incapacity for work was also studied, the Finnish social security system was compared internationally, the effects of the EMU on social security were investigated and citizens' attitudes to Kela were assessed. Research projects on students in upper secondary vocational education and training, the development and alternatives to basic security and the effect of incentives were also launched.

The development of population groups' living conditions were studied from various perspectives. Social and health security systems were assessed and changes made were investigated. Good progress was made in the use of economic simulation models, and Kela as the provider of social security was assessed.

A report on customer service and working conditions at Kela based on the Kela barometer was published. Reports on the many forms of care provided in Finland, Kela's impact on society and the problems in the basic security for the unemployed were also published. Publishing on the Internet was also increased. Research reports were published at briefings and information events and as

bulletins and on the Internet.

A research seminar on the injustices in Finnish social policy or social security was held and *Vääryyskirja* (A book of injustice) was published. The articles in this book dealt with issues such as discriminatory social work, old people who are prisoners in their own homes, problems faced by mothers who stay at home, controversial child custody decisions and the forgotten social consequences of the changes to the structure of farming.

Finland's EU Presidency was also evident in Kela. In a six-part series of information briefings, Finland's MEPs explained current EU social and health security issues. The external assessment of Kela research was completed in June 2006. The assessment group considered that Kela's research activities were vital and the quality of research was satisfactory, and in places, excellent.

Information services

The Information Services monitored both online and printed data, gathering information from a variety of sources. Information was mainly distributed to Kela's own units, but also to external customers, and increasingly over the Internet and the Kela intranet (Kelanet). 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 implementation of EU legislation and social security agreements made up a considerable part of international operations. Kela took part in related negotiations with the national social insurance institutions in other Nordic countries and bilaterally with Estonia, Sweden and Germany. During the year 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 participated in the preparations for a brochure on the social security provided by the Nordic countries.

Kela was also 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). It also cooperated with social security research institutes in EU Member States and other countries.

Kela took part in hosting and organizing international research meetings during Finland's EU Presidency.

Rehabilitation Centre Petrea

Kela's Rehabilitation Centre Petrea produces rehabilitation services for Kela and other clients. Profits for the year under review reached EUR 50,000 (EUR 320,000). Petrea had a turnover of EUR 8 million (EUR 8.5 million). The number of customer days totalled 47,405, an increase of 1.5% on the previous year. From the beginning of 2007 the work carried out by the rehabilitation centre will be transferred to the Petrea Foundation.

FINANCIAL STATEMENTS

OPERATING REPORT BY THE BOARD OF DIRECTORS FOR 2006

Based on the principles of good governance and openness, Kela's Board of Directors has prepared a report on Kela's administrative, management and control systems (Corporate Governance). This is available in Finnish on the Kela Internet and intranet sites. It includes an overview of the principles of Kela's administration, the related legislation, relevant decisions by the Trustees and the Board of Directors, and organization of operations.

Strategic base

Kela's mission is to secure the income and promote the health of the entire nation, and to support the capacity of individual citizens to care for themselves. Kela's operations are based on the following values: respect for the individual, expertise, cooperation and renewal. Kela's strategic aim is to provide its customers all over the country with the best possible public sector service. Kela also actively participates in the development of the welfare society. The success of Kela is based on competent and professional staff, a comprehensive service network, clearly-defined service channels, a high level of quality, cost-effective operations and effective information technology.

In its strategic documents, Kela's operations are examined from four perspectives: impact on clients and society, economics, processes and the renewal of personnel and the working community.

Kela's aim is to be service-minded, to provide a variety of service channels and to actively develop social security research and implementation and the legislation which affects Kela operations. Kela's solvency is ensured. The main aim is to provide high-quality services efficiently for customers.

A customer survey is held annually to establish the level at which these aims are achieved and to gauge the performance of customer service. In addition, a customer feedback system makes it possible to regularly obtain feedback on the services provided by Kela. The survey makes it possible to assess annually the level at which the personnel consider the values to be evident in the practical operations of the work community.

Board activities in 2006

The Board convened ten times during the year. In addition, an annual Board strategy seminar was held, at which Kela's strategic targets and focus areas were discussed and developed. The Board also held a separate advanced 'evening session', which dealt with issues associated with Corporate Governance.

The Board visited the Northwestern Uusimaa district in the Southern Finland insurance region, and, among other things, familiarized itself with the Lohja office.

Key decisions in 2006

The Board has accepted the operational and financial plan and project portfolio for 2007-2010, and the Kela scorecard for 2007, and signed performance agreements with the Director-General and the Directors for 2007. The operational and financial plan comprises Kela's mission statement, vision, values, strategic base and scorecard. Central projects in the project portfolio for 2007-2010 include the development of a programme to improve customer service, implementation of the revised benefit guidelines, and development of electronic customer services. The Board of Directors participated in the development of Kela's process management.

The Board appointed the Kela Research Advisory Board for the period January 1, 2006 to July 31, 2007. The Advisory Board supports Kela's research activity and its development, and includes extensive representation of stakeholders in the research field. The Board was also provided with a report on the external assessment of research operations. The Board also appointed the Kela Occupational Health Advisory Board for a 3-year period commencing April 1, 2007.

During the year, the Board dealt with changing Kela's Rehabilitation Centre Petrea into an independent foundation on a number of occasions. The government bill, prepared in cooperation with the Ministry of Social Affairs and Health, was submitted to Parliament on August 8, 2006. The Parliament passed the bill allowing Kela's internal Rehabilitation Centre Petrea to operate as an independent foundation. The Act came into force on January 1, 2007. The Board nominated the members for the foundation's Council on November 14, 2006.

The Board agreed that Kela would take charge of maintaining the national social and health care services electronic archive and prescription database, and actively monitored the progress of the initiative. It authorized those in charge of the project to negotiate on behalf of Kela and to prepare for the update and distribution of the electronic prescription database as part of the national archive's operations. The relevant act was passed by the Parliament on December 12, 2006.

The Board nominated Sirkka Hongell, M.Pol.Sc., Chief Human Resources Officer, as the Regional Manager of the Southern Finland Insurance Region as of June 1, 2006; Tiina Huusko, M.D., Ph.D., as the Rehabilitation Manager in the Health and Income Security Department as of September 1, 2006; and Jorma Järvisalo, Research Professor, as the Medical Director of Kela as of January 1, 2007.

A total of six decisions on merging insurance districts were made. There were 55 insurance districts as of January 1, 2007.

The Board has submitted a proposal to the Parliamentary Trustees to change its accounting principles so that the institution's assets are valued in the financial statements at current values, and that the book values determined in the pension liability fund can also



be used as the values for assets. The Board also twice clarified an authorization it had given regarding administrative matters.

In its meetings, the Board received monthly, quarterly and half-yearly reports from the Director-General, and provided feedback on them. Particular attention was paid to the development of the speed and quality of benefit decisions and the development of a system to monitor personnel requirements.

Funding

Overall Kela expenditure in 2006 came to EUR 10,829 million. This comprises EUR 10,471 million in benefits and EUR 358 million in operating expenses. Total expenditure increased by EUR 107 million i.e. 1% on the previous year.

Income and the government guarantee payment to the national pension insurance fund totalled EUR 10,968 million, an increase of EUR 198 million, i.e. 1.8%.

National health contributions paid by the insured accounted for EUR 1,458 million and employers' national pension and health contributions for EUR 2,370 million. Kela received EUR 56 million in

wage earners' unemployment insurance contributions. Insurance contributions made up a total of 35% of overall income. Government contributions accounted for 59% and those from municipalities for 5% of total income. Kela no longer received value added tax.

Investments

The Board annually approves Kela's investment plan. The objectives of the investment operations are security, profit, cash convertibility, and adequate diversity and spread of investments. 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 NPI and NHI funds 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 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 international stock markets produced a good yield for the fourth consecutive year. Crucial factors contributing to this development were the continued global economic growth, the mostly mild valuation of shares, and good performance by corporate enterprises. Unlike the previous year, the yields from different market areas differed significantly, with even the good yields not making it to the high level of 2005. Investors obtained the best yields from Russia and the developing markets of Europe. Other developing markets and the Finnish stock market also produced good yields, and Western Europe reached a good level, as well. The North American market, on the contrary, provided Euro-investors with scarcely satisfactory yields due to the weakened dollar, and the share markets in Japan performed the worst.

The pension liability fund's shares were sold to a value of approximately EUR 55 million in 2006. Despite the sales, the market value of the shares was approximately EUR 104 million higher than at the end of 2005. This corresponds to a 28% appreciation. The pension liability fund has continued to diversify investments and minimize risks. The market value of the fund's investments rose by 36% during the year.

The Kela dividend yields totalled EUR 41 million. Dividend yields for the previous year totalled EUR 74 million, but included a dividend of almost EUR 40 million paid by Fortum Oyj as Neste Oil Oyj shares. The average interest on current assets was 2.97% (2.14% in 2005) and interest yields totalled EUR 17 million (EUR 13 million in 2005).

Funding national pension insurance

National pension insurance (NPI) expenses totalled EUR 3,035 million, an increase of just under 1% on the previous year. National pension insurance income totalled EUR 2,512 million. Of total NPI income, EUR 1,097 million derived from employer contributions, which funded 36% of national pension insurance expenses.

The central government paid EUR 1,367 million in benefit contributions and its NPI contribution was increased from 29% in 2005 to 40%. It financed 100% of childcare and disability allowances, survivors' pensions, front-veterans' benefits and housing benefits for pensioners. In order to protect the solvency throughout the year, the NPI must set a minimum level for its liquid assets. In 2006, EUR 555 million in government liquidity guarantee payments were required in order to achieve the minimum level set for liquid assets.

Funding national health insurance and rehabilitation

Total national health insurance expenditure was EUR 3,718 million, an increase of 5.2% from the previous year. The funding of national health insurance was reformed as of January 1, 2006. In order to balance the funding of health insurance and to reinforce the insurance principles, the national health insurance was financially divided into

earnings-related insurance and medical insurance.

The earnings-related insurance includes daily sickness allowance, parental allowance, rehabilitation allowance, and occupational health care, excluding compensation paid to the Finnish Student Health Services. The cost of earnings-related insurance benefits totalled EUR 1,741 million, an increase of 7.6% on the corresponding costs for the previous year.

Employers funded 73% of earnings-related insurance expenses, and entrepreneurs 27%, excluding the minimum amounts for daily allowances, which are funded by central government. In 2006, employers' health insurance costs amounted to EUR 1,273 million, and daily allowance costs, which are new for wage-earners and entrepreneurs, amounted to EUR 480 million.

Medical insurance includes reimbursement of medical expenses, e.g. reimbursements for prescribed medicines and doctors' fees. Rehabilitation costs, excluding rehabilitation allowances, are included in the medical insurance. The cost of medical insurance benefits totalled EUR 1,762 million, an increase of 2.7% from the previous year.

Medical insurance is funded half by the insured and half by the government. Medical insurance contributions, collected from wage-earners, entrepreneurs and recipients of benefits in order to fund the medical insurance, amounted to EUR 978 million. The government contributed EUR 981 million. In addition, the government funds the shortfall in EU compensations from foreign reimbursements.

The funding reform was implemented according to plan, and development during the first year was favourable. Due to the rapid growth of total payroll, insurance premiums amounted to slightly more than expected. Medical insurance expenditure, of which most were for reimbursements for medicines increased slightly. Funding for national health insurance grew stronger. Development during 2006 contributed to the decrease in insurance premiums in 2007.

Funding other social security

Other social security benefit payments in 2006 totalled EUR 4,077 million, a decrease of 2.6% from the previous year. Of other social security benefit payments, the government funded EUR 3,449 million. EUR 56 million came from wage earners' unemployment insurance contributions. Since the beginning of 2006, municipalities funded half of the labour market subsidies' 'passive period' for those unemployed for over 500 days. Municipalities contributed EUR 178 million towards labour market subsidies and EUR 394 million towards child care subsidies.

Administration expenses

Administration expenses totalled EUR 357.6 million, which amounts to 3.3% of the total expenses. Administration expenses increased 8.2% compared with the previous year. The increase is due to a change in contribution payments. In 2006, contributions to the pension liability fund amounted to EUR 43.1 million, in 2005 to only EUR 20.6 million, as dividend yields that year were exceptionally high.

Wages and salaries totalled EUR 162.7 million, which was an increase of 0.8% on the previous year. Staff-related costs, excluding contribution payments, amounted to EUR 25.2 million.

Other administration expenses totalled EUR 72.4 million, an increase of 7.3% on the previous year. This includes EUR 30.3 million in IT costs, EUR 7.9 million in depreciation of fixed assets, and EUR 15.8 million in income items reducing administration expenses.

Purchased services, which consisted largely of tax costs paid to the tax administration, came to a total of EUR 54.2 million.

Pension liability fund

Kela's actuarial liability for staff pensions totalled EUR 1,450 million at the end of the year, with expenditure on current pensions accounting for EUR 618 million. The full pension liability increased by EUR 72 million in 2006, because of pay and pension rises and an increase in pension accrual.

Pension liability covered by employer contributions amounted to EUR 41% of the total liability. Pension liability covered by employee pension contributions was EUR 27 million. The amount of pension liability covered was a total of EUR 622 million at the end of 2006. In addition, the pension liability fund had EUR 542 million worth of funds, which were mostly from revaluation.

EUR 43.1 million in employer contributions was paid into the pension liability fund. In addition, employee contributions amounted to EUR 8.0 million, EUR 2.8 million of which was used to cover pension liability.

According to the so-called VILMA procedure, the Local Government Pensions Institution, the State Treasury and the Central Church Fund paid out EUR 0.62 million in pensions accrued at Kela, while EUR 0.58 million were paid by Kela. Kela paid EUR 52.3 million in employment-based pensions, an increase of 6.2% on 2005.

Employers' health insurance payment criteria % of wages

National pension insurance	2005	2006	2007
Private sector ¹			
Class I contributions	1,366	0,898	0,901
Class II contributions	3,566	3,098	3,101
Class III contributions	4,466	3,998	4,001
Public sector			
Central government and Åland	3,966	1,948	1,951
Municipalities and the Church	2,416	1,948	1,951

Health insurance	2005	2006	2007
Private sector			
	1,60	2,06	2,05
Public sector			
Central government and Åland	2,85	2,06	2,05
Municipalities and the Church	1,60	2,06	2,05

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

HEALTH INSURANCE PAYMENT CRITERIA OF THE INSURED

	2005	2006	2007
Health insurance payment ¹	1,50		
Wage-earners and entrepreneurs			
insured by Farmers' Pension Act (MYEL)			
Medical expenses ¹		1,33	1,28
Daily allowance ²		0,77	0,75
Entrepreneurs insured by Self-			
Employed Persons' Pensions Act (YEL)			
Medical expenses ¹		1,33	1,28
Daily allowance ²		1,02	0,91
Recipients of pensions and benefits			
Medical expenses ¹		1,50	1,45

¹ Percentage of earnings taxed with municipal taxation, percentage of net earnings for entrepreneurs.

² Percentage of taxable salary and entrepreneurs' earned income.

Outlook for the future

The client and social impact

Our aim is that the social security provided by Kela is trusted, that it is clearly understandable and of reasonable quality. We also aim to provide Kela customers all over the country with the best possible public sector service. As an expert, Kela actively participates in the development of social security, thereby creating prerequisites for employment.

Kela services are segmented according to the different stages of the customers' lives. Service channels include the Internet, telephone, office and joint services, services provided at post offices and direct reimbursement. Kela is gradually implementing a specialization of services and solutions, speeding up the development of Internet-based services and improving the efficiency of its processes. The office network way of thinking is giving way to the service network way of thinking.

Good customer service is based on customer focus, expertise and cooperation. Customers are steered towards the most appropriate service channel based on what is easy and close to them. The customer's entire life situation is taken into account in the service provided. The procedure for claiming benefits will be made simpler and easier, and spoken information will correspond to written information as much as possible. Claims determination will be automated and direct reimbursement procedures further developed.

Services for special groups, such as immigrants and the disabled, will receive particular attention in the development of the service network. The change in the office network will be compensated for by other service channels and shared services. Office opening hours will be made more flexible in accordance with customer needs. Customers are seen as Kela customers, not as customers of a particular office. The structure of the office network and the number of offices will be assessed on the basis of customer needs. Kela will also launch shared services and determine targets for cooperation. However, Kela will continue to be in charge of taking the decisions concerning benefits in these shared services.

Service channels and the content of services will be further developed and the implementation of electronic services sped up. The telephone services of contact centers will be extended to cover the entire country.

Directing customers to the most appropriate service channels will be supported by communication, and the services will be actively marketed. Stakeholder cooperation will be enhanced, and at the same time, discussion and cooperation with other customer service operators increased.

The aim is to make the whole organization service-orientated, and consistent modes and methods of operation will be adopted. The management organization must support reforms. A process-orientated organization will be promoted.

While developing benefits, Kela will also highlight the effect of reforms on benefits, their costs and their implementation. New tasks

to be undertaken by Kela, such as the processing of maintenance support and the maintenance of the national electronic archive, will affect Kela's services and cooperation with others.

Renewal of personnel and the working community

In personnel policy, the starting points will be the know-how related to services, solutions and tools, and expertise. The number and allocation of personnel must be correct, and the quality of work will be measured. We will look after the work ability and well-being of our personnel, and improve the content of work and the functionality of the work community. We will invest in induction, training and opportunities for advancement, recruitment, and reward systems.

Processes

Matters are handled smoothly by means of a variety of service channels, and with customer-orientation, swiftness, consistency and exactness. Constant attention is paid to the comprehensibility and clarity of decisions and customer documents. Operations are established on a functional division of labour and consistent working practices and systems. We assess and improve the performance of our processes on the basis of customer satisfaction, the performance of the work community, economic efficiency and productivity, as well as the quality of decisions and the key figures related to processing times. By predicting risks we can ensure the smooth flow of processes and the achievement of targets.

Economics

In 2007, Kela's total income and expenditure are expected to reach EUR 11.2 billion. Pension insurance benefits make up EUR 2.9 billion, health insurance and rehabilitation benefits make up just under EUR 3.8 billion, and other social security benefits EUR 4.1 billion of the expenditure.

The Ministry of Social Affairs and Health is undertaking an official review of whether the government guarantee payment to Kela's national pension insurance fund could be abolished. The review will survey the liquidity of Kela's health insurance and pension insurance funds, the focusing of operational expenses, funding, and the use of investment assets. The review is due to be completed by March 31, 2007.

From the beginning of 2008, Kela's funding will change so that pensioners' care allowance will be directly funded by the government. At the same time, municipality categories based on living expenses will be abolished.

KELA'S ADMINISTRATION

Kela's administration, organs and functions are provided for in the Act on the Social Insurance Institution (731/2001). In accordance with Section 1 of the Act, Kela is an independent institution under public law, the administration and operations of which are supervised by Trustees appointed by Parliament. In accordance with Section 2 of the Act, the functions related to social security are prescribed in the different Acts related to benefits. In accordance with Section 3, Kela organs comprise the Trustees and a Board of Directors.

Pursuant to Section 5(3), Kela's internal regulations have been approved by the Trustees. The regulations prescribe the procedures the Board is to follow in dealing with matters, the functions of the Director-General and other directors, the organization of central administration, submissions, and the functions of regional managers and district managers, and eligibility requirements for these positions.

Trustees

The Parliament appoints 12 Trustees and approves their service regulations. The Trustees' term of office is the length of the electoral period, i.e. four years.

The function of the Trustees is to supervise the administration and operations of Kela, taking into account, among other things, the quality and availability of Kela's services. The Trustees appoint the members of the Board of Directors and submit a proposal to the President of Finland regarding the appointment of the Director-General and the Directors. Other functions of the Trustees include approval of Kela's internal regulations, selection of Kela's auditors, approval of the accounting principles based on the recommendation of the Board of Directors, approval of the financial statements, decision on releasing the Board from liability, and submitting a report on their operations to Parliament annually. The Parliament has approved the service regulations for the Trustees, which prescribe, among other things, the functions and meetings of the Trustees.

Board of Directors

The Board of Directors consists of a maximum of ten members, eight of whom are appointed by the Trustees. The Director-General of Kela and his or her deputy are members of the Board. In appointing the Board members, the potential nominees' expertise in social security, management, administration, economy and investment operations are taken into account. One of the Board members is a representative of the Ministry of Social Affairs and Health, one a representative of the central employer organizations, one of the central organizations of trade unions, and one of the Central Union of Agricultural Producers and Forest Owners.

The Board's term of office is three years. The Board currently has 10 members. A representative of the staff has voice without vote at Board meetings.

The function of the Board is to manage and develop Kela's operations. The Board holds general authority to manage Kela's business. Its tasks include the annual approval of Kela's operational and financial plan, preparation of Kela's annual report and financial statements every year, preparation of Kela's service regulations for approval by the Trustees, deciding on the general principles of investing Kela's assets, make decisions on the sale and purchase of Kela's real estate, deciding on the division of labour between the Director-General and the Directors, and entering into employment contracts with senior managers. The Chair, Deputy Chair and members of the Board make annual declarations on insider holdings similar to those in Financial Supervision. As a rule, the Board convenes monthly.

Committees elected by the Board of Directors

The Board has appointed a Rewards Committee and an Audit Committee. The Rewards Committee, which deals with executive remuneration, consists of the Chair of the Board, the Deputy Chair of the Board, the Director-General, and his or her deputy.

The Audit Committee supervises and leads internal audits and their coordination, and the review of accounts. The members of the Audit Committee include the Chair of the Board of Directors as the Chair, and, as members, the Director-General, his or her deputy, the Supervisory Auditor and the Director of Internal Audit, who also acts as the secretary for the Committee.

Director-General and Directors

Kela has a Director-General and a maximum of five Directors, appointed by the President of Finland upon recommendation by the Trustees. The President of Finland appoints one of the Directors as the deputy for the Director-General. The eligibility requirements for the Director-General and the Directors are set by a government decree. Relevant parts of the State Civil Servants Act (750/1994) apply to the employment relationships of the Director-General and the Directors.

The Kela Board has approved the division of labour between the Director-General and the Directors. The functions of the Director-General and the Directors are defined in the internal regulations.

The Director-General is responsible for the strategic planning and operative management and development of Kela, the operations of regional and local administration, the implementation of Board decisions, and any units and related issues entrusted to him or her by the Board. On the recommendation of the Director-General, and based on the operational and financial plan, the Board enters into performance contracts with the Directors. The Director-General enters into performance contracts with regional managers. The Director-General undertakes performance negotiations related to regional administration in cooperation with the Directors.

The Directors are responsible for strategic planning for and operative management and development of the units entrusted to them

by the Board. The Directors act as each other's deputies as determined by the Board.

Management group

The management group comprises the Directors and is led by the Director-General. It handles proposals to be submitted to the Board and other important issues that require discussion that extends beyond any individual area of operation. As a rule, the management group convenes weekly.

Decision-making procedures regarding investments

The Act on the Social Insurance Institution makes provisions for investment of equity and investment plans. In accordance with the Act, when investing assets of the national pension insurance fund, the national health insurance fund, or the pension liability fund, the security, profit, cash convertibility, adequate diversity and spread of the investments must be ensured. The Kela Board is to prepare an investment plan regarding the investment of the assets. The investment plan must, in particular, take into account the nature of the funds and the requirements of investment operations. Under delegation by the Board of Directors, the Director-General and the head of the Economic Department hold responsibility for investing the assets in accordance with the investment plan.

Remuneration and reward procedures

The service regulations regarding the Trustees provide for their remuneration. The Trustees determine the remuneration of members of the Board of Directors. The Board approves the Director-General and Directors' salary, pension and other benefits. The Board has also approved the principles for the remuneration of employees. Information on the remuneration of the Director-General, the Directors and senior management is public.

Employment of employees is provided for in the Board decision regarding authority in administration issues.

Internal audits

In accordance with the internal regulations, the Internal Audit unit functions under the Director-General as part of central administration, and its service regulations are approved by the Board of Kela. In accordance with the service regulations, the Internal Audit unit forms part of Kela's monitoring system, and is used as a tool by the Board, the Director-General and the Management Group to implement their supervisory responsibility.

Internal Audit prepares an annual audit plan for each year. The Audit Committee considers the annual plan, and the Director-General approves it. The annual plan is also provided to the Board for information. Internal Audit complies with international standards set for internal audits.

The Internal Audit unit comprises the Director of Internal Audit and an appropriate number of internal auditors and other assisting staff, as required by operations.

Internal Audit reports on the results of its audits to the contact person for the target of the audit and his or her supervisor. In addition, Internal Audit prepares summary reports to the Director-General and the Audit Committee every four months. The Director of Internal Audit approves audit reports before they are released.

Risk management at Kela

The Kela Board has decided on the principles and responsibilities of Kela's risk management. Common risk management principles underpin the entire risk management framework of Kela and ensure, for example, that Kela's mission and strategic and operative targets can be achieved. Strategic risks at the institution level and their prioritization and administrative measures are approved by the Kela Board in conjunction with the approval of Kela's strategy.

Risk management has been adopted as part of performance management. Each unit has included a risk register and a risk map in its performance agreement. Risks that eventuated and 'near miss' situations are monitored through the performance reports of the units.

Reports on the status of risk management are submitted to the Director-General, who has the overall responsibility for organizing risk management and ensuring its smooth functioning. The reports are also presented to the Board, which is responsible for ensuring that adequate and necessary risk management principles and measures are in place at Kela.

Audit of the financial statements

The Trustees appoint the necessary amount of auditors and approve their service regulation. Currently there are eight auditors. The auditors have elected a supervisory auditor amongst themselves, who presents a quarterly supervisory report to the auditors for consideration. The supervisory auditor's report is also provided to the Trustees and the Board for information.

The role of the auditors is to audit Kela administration, asset management and operations. In undertaking the audit, the relevant provisions of the Auditing Act (936/1994) apply. The auditors undertake the audit, and provide the Trustees with the auditors' report by the April following the financial year. The Trustees approve remuneration for the auditors.

Communications

Kela has a communication plan, which describes the objectives and principles of communication. The Administration Department includes a Communications unit, which is responsible for Kela's internal and external communications. The Communications Manager is the chief editor of Kela publications and the chair of Internet editors.

Kela maintains an extensive website (www.kela.fi), which outlines Kela operations by operational area. The Kela website is maintained by the web editors. In addition, Kela has an intranet site called Kelanetti. Kela also publishes three publications: Kela Sanomat, FPA-bladet and Sosiaalivakuutus. In addition, Kela publishes an internal magazine called Yhteispeli.



Kela

The Social Insurance Institution of Finland

Organization

Jorma Huuhtanen, Director-General
Administration Department,
Economic Department, Internal Audit,
Insurance Districts, Local Offices

Matti Puhakka, Director
Director-General's deputy
Human Resources Department,
Information Systems Department, IT Centre

Mikael Forss, Director
Health and Income Security Department,
Research Department

Asko Apukka, Director
Office Services Department

Helena Pesola, Director
Pension and Income Security Department,
Actuarial and Statistical Department

Contact information

Main office

Nordenskiöldinkatu 12
PO Box 450, 00101 Helsinki
Telephone 020 634 11

Pitäjänmäki office

Höyläämötie 1 a B
PO Box 78, 00381 Helsinki
Telephone 020 634 11

Computer Centre

PO Box 371, 40101 Jyväskylä
Telephone 020 634 11

Centre for Student Financial Aid

Vapaudenkatu 48-50
PO Box 228, 40101 Jyväskylä
Telephone 020 634 6611

REGIONAL OFFICES

Regional Office for Northern Finland

Sepänkatu 18
PO Box 190, 90101 Oulu
Telephone 020 635 4211

Regional Office for Western Finland

Kalevankatu 17 A
PO Box 361, 60101 Seinäjoki
Telephone 020 635 5221

Regional Office for Eastern Finland

Suokatu 40 A, 2nd floor
PO Box 188, 70101 Kuopio
Telephone 020 635 7211

Regional Office for Southwestern Finland

Eerikinkatu 26
PO Box 365, 20101 Turku
Telephone 020 635 9611

Regional Office for Southern Finland

Kirkkokatu 8
PO Box 149, 15141 Lahti
Telephone 020 635 1511



With you throughout life - supporting you through the times of change

