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Policy brief: Analysis of earnings-related social insurance payments in Finland. Employment status matters.

This policy brief asks what kind of differences exist between different types of employment in Finland in terms of earnings-related social insurance payments. In 2020, the number of employed people in Finland was 2,528,000. This consisted of 2,189,000 employees and 340,000 self-employed persons and unpaid family workers (Statistics Finland 2021). Among employees, temporary contracts are more widespread in Finland than in OECD countries generally, but the prevalence of part-time work in Finland is equal to the OECD average (OECD 2019, 58–59). More than 100,000 persons engaged in paid work with a zero-hours contract (Pärnänen 2019). Additionally, the number of self-employed entrepreneurs grew 1.5 fold between the turn of the millennium and 2018, when it reached 183,000 (Sutela & Pärnänen 2018). Those self-employed entrepreneurs who hold YEL-insurance (see below) have access to broader social protection compared to the rest of the self-employed.

The increase in platform-mediated work partly accounts for the increase in self-employment, particularly as platform work has spread to more traditional areas of work (Mattila 2020). Pesole et al. (2018, 18) provided a mid-range estimate among the studies assessing the prevalence of platform-mediated work, which found that 3.3% of adults in Finland had earned at least one fourth of their income through platforms. The current estimates are likely to be underestimated due to the fast growth of the platform work sector and the high share of migrant workers. It is also noteworthy that a quarter of self-employed entrepreneurs were in the lowest income decile (annual income below €10,000), while only 8% of employees fell within this decile (Sutela & Pärnänen 2018, 62; Statistics Finland 2016).

Self-employed persons are insured under the Self-Employed Persons' Pensions Act (YEL), which affects not only pensions but also other social security benefits (Finnish Centre for Pensions 2021). Entrepreneurial activities must be insured if the work input of the self-employed person (aged 18–67 and resident in Finland) is valued at more than €8,064 per year and their work as an entrepreneur continues for at least four consecutive months (Ilmarinen 2021). The available tax data shows that about 200,000 self-employed workers are not covered by the YEL insurance, as they do not meet the above criteria. Some of them are part-time or full-time employed and may have access to employment related insurance. It has been estimated that only 10,000 of non-YEL insured self-employed have no other earned income (MSAH 2019: 23, 56-57).

Earnings-related social insurance plays a significant role in Finland's social security system (Kela 2021). In the case of employment, both the employer and the employee pay contributions to the various schemes. The government contributes varying shares of the cost depending on the scheme. Among the schemes, insurance against occupational accidents and occupational disease is solely funded by the employer, not by the employee.

The following table presents the main forms of work-related social insurance and the contribution costs for employers, employees and self-employed entrepreneurs. The purpose of the table is to facilitate cost comparisons of social security contributions between classifications of worker status. The classification of platform-mediated work has been contested across the EU. An estimate of employer costs in Finland for a food delivery worker who is defined as an employee is about 34.4 % of salary costs added to the salary, applying 1.9% for unemployment insurance (the rate for a large company) and assuming that the person is in the highest category of risk (premium 5%, TVK 2021) for occupational accidents and occupational diseases insurance (which is likely for food delivery work)

and that holiday pay is included at the lower 9% level. The social security payment for the employee (aged 17–52) is 10.6%, but the employer pays the employee holiday benefits to the value of 9% of the employee's salary. The platform company can save this 34.4% on wages if the social insurance costs are shifted to the contractor or self-employed person. We can use this to estimate how much of the costs could be shifted. If a delivery worker would earn about €18,000 per year after their work-related expenses but before personal taxes, the savings for the platform company would be more than €6,000 per worker. Correspondingly, this shift places an extra burden on the self-employed person compared to the cost burden if he or she were an employee.

A self-employed person would pay 35% social insurance costs without holiday pay. Adding the minimal value of an annual holiday (9%), a self-employed entrepreneur would pay 44%. This can be compared with an employee's burden of 10.6% of the costs, which, if we deduct his or her gains of 9% holiday benefits, falls to a total share of pay of 1.6% for similar income-related social security. Correspondingly, a self-employed entrepreneur would need to spend around 40% of their wage to reach the same level of social security as a salaried worker. This analysis focuses on the big picture, without examining the details of the schemes. However, it should be noted that a new entrepreneur receives a discount of 22% for his or her pension expenses for 48 months, and all entrepreneur's pension payments are tax deductible (Uusyrityskeskus 2021). An employee's pension payments are also tax deductible. This is more relevant for those earning higher incomes and paying higher taxes. Furthermore, in Finland, health insurance under social insurance covers a sickness allowance for lost income for a maximum number of 300 days as result of illness but does not cover the cost of health care.

This analysis shows that employment status has a significant impact on earnings-related social security payments in Finland.

Social insurance	Situation	Benefit to be applied for	Impact of earned income	Who pays the benefit	Employer contribution	Employee contribution	Self-employed entrepreneur contribution	Notes
Health insurance	You fall ill	Daily sickness allowance	Your daily sickness allowance is based on your earned income	Kela (the Social Insurance Institution of Finland)	1,53%	Daily allowance contribution 1.36% The medical care contribution is 0.68% of earned income	Daily allowance contribution 1.55% The medical care contribution is 0.68% of earned income.	If ill, employee gets salary (up to sectoral agreement) and allowance goes to employer. YEL-insured 1 day waiting period. Self-employed, who do not pay YEL-insurance, 9 days waiting period for sickness allowance.
Parental and family benefits	You have a baby	Parental allowance	The allowance is based on your earned income	Kela				Tripartite finance through the national health insurance. (FIHW 2021)
Insurance against occupational accidents and occupational disease	You lose your ability to work due to an accident or illness	Vocational rehabilitation and/or disability pension	The compensation is based on your annual earned income	Non-Life Insurance Company; State Treasury (Adapted from Ilmarinen)	The premium for insurance against accidents at work and occupational diseases varies between 0.05 and 5 per cent, depending on the danger of the work and averages 0.7 per cent of wages in 2021. (FWCC 2021) E.g. in the construction sector 5% (IF 2021)		Voluntary equivalent to the statutory insurance for a self-employed entrepreneur in the construction industry approximately 7.5% (this example includes also coverage for leisure time accidents) (IF 2021)	The average premium for employee group life insurance will be 0.06 percent in 2021. (FWCC 2021)
	You lose your ability to work or die due to an accident	Compensation from accident insurance; daily allowance, rehabilitation, survivor's pension etc.	The compensation is based on your annual earned income.	Non-Life Insurance Company; State Treasury (Adapted from Ilmarinen)				

Social insurance	Situation	Benefit to be applied for	Impact of earned income	Who pays the benefit	Employer contribution	Employee contribution	Self-employed entrepreneur contribution	Notes
Unemployment insurance	You lose your job	Basic daily allowance	To accumulate the daily allowance, your earned income must beat least EUR 13,247.00 in 2021	Kela	0.5% for the annual salary amount less than EUR 2.169.000 & 1.9% for the part of salary amount exceeding EUR 2.169.000.	1,4%	Contribution for wage earners of partial owners of an enterprise 0.65% and employer's unemployment insurance contribution payable for part-owners 0.50%	Funding between the tripartite for the different components of the unemployment insurance varies. The prior columns show generic contributor shares. To qualify earning related scheme one needs to pay contribution to one of the unemployment funds.
		Labour Market Subsidy	A means-tested benefit when you are not entitled to basic daily allowance	Kela				
	You lose your job	Earnings-related daily allowance	To accumulate the daily allowance, your earned income must be at least EUR 13,247.00 in 2021	The Unemployment Fund for Entrepreneurs and the Self-employed AYT or the Finnish Unemployment Fund for Entrepreneurs SYT				
Earnings related pension insurance	You want to work less or take out part of your pension	Partial early old-age pension	The amount is either 25 or 50 percent calculated from the pension that you have accrued by the end of the year preceding your retirement	Employment pension insurance company	Average 16,95 %	17-52 years: 7,15 % 53-62 years: 8,65 % 63 +: 7,15%	17-52 years: 24,10 % 53-62 years: 25,60 % 63 +: 24,10 %	Mandatory when the self-employed person's confirmed income from work is at least 8,063.57 euros per year For first-time entrepreneurs, 22% discount for 48 months. e.g. 17-52 years: 18,80 %.
	You age	Old-age pension or years-of-service-pension (under certain conditions)	The pension is based on your earned income	Employment pension insurance company				
	You die	Survivors' pension	The pension is based on your earned income	Employment pension insurance company				
Annual holiday pay					9% or 11,5% of annual salary (Annual Holidays Act 162/2005)			Paid by employer to employee. Based on the Annual Holidays Act 162/2005

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Table sources

Columns 2-5 (marked grey) source: Ilmarinen (2021) Employment Insurance Company.

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Columns 6-8 on contributions: Ministry for Health and Social Affairs (2021), unless other source is specified <https://stm.fi/en/social-insurance-contribution>

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