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Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund

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Rationale

Issuer Credit Rating
AA+/Stable/A-1+

We equalize our ratings on Finland's unemployment benefit agency TVR with the ratings on its related government, the Republic of Finland (AA+/Stable/A-1+). The equalization reflects our expectation of an "almost certain" likelihood that the Finnish government would provide timely and sufficient extraordinary support to TVR in the event of financial distress. In light of our views that the "almost certain" likelihood of extraordinary government support is set to endure, and that TVR is a nonseverable arm of government, we do not assign a stand-alone credit profile to this entity.

In accordance with our criteria for rating government-related entities (GREs), we base our assessment of an "almost certain" likelihood of government support on TVR's:

- "Critical" role for Finland as the sole entity responsible for defining and managing the Finnish earnings-related unemployment insurance scheme; and
- "Integral" link with the Finnish government, as indicated by the strong government supervision and control over TVR.

TVR finances and manages Finland's compulsory earnings-related unemployment insurance schemes. Its two key functions are to collect unemployment insurance premiums and use them, mainly to finance unemployment benefits and fund pensions accrued during periods of unemployment. Furthermore, TVR manages the government's contributions to the unemployment funds.

TVR is an independent institution established by law. We consider it to be a nonseverable arm of the government, as reflected in TVR's status as an indirect public administration. This status not only underlines TVR's integral link with the government, but also implies that if TVR did not exist, a government body would be needed to manage its duties. Furthermore, because TVR has the role of a public administration, it is treated like a public authority and therefore must comply with the same rules as public authorities. TVR is under the close guidance and monitoring of the Ministry of Social Affairs and Health, and to some extent it also interacts with the Ministry of Finance and Ministry of Employment and the Economy. Furthermore, TVR's operations are subject to supervision by Finland's Financial Supervisory Authority (FSA).

TVR's highest managing body, the supervisory board, is appointed by the central government and consists of both employer and employee organization representatives. TVR's functions are laid down in legislation and any modifications to its functions or funding are drafted by the Ministry of Social Affairs and Health, together with labor market organizations. Consequently, each year TVR submits a proposal on the amount of unemployment insurance premiums to the Ministry of Social Affairs. This proposal is not binding for either the ministry or parliament, but in most cases parliament approves the premium levels TVR has proposed.

In addition, TVR's critical role for the government is underlined by its execution of a core responsibility for the central government, which is ultimately responsible for the unemployment schemes and determines TVR's functions and funding sources.

As the cornerstone of the Finnish unemployment scheme, TVR already benefits from strong ongoing government support. This comes primarily through its unique status within the Finnish welfare system and its legal monopoly in the area of compulsory earnings-related unemployment benefits, which allows it to propose insurance premiums to the Ministry of Social Affairs and Health. Also, TVR is authorized to maintain financial buffers, has the authority to take external loans, and benefits from government guarantees on certain debt obligations. Furthermore, we believe that if TVR needed extraordinary financial assistance, the government would take preemptive actions and provide adequate and timely support. On a few previous occasions, the Finnish government, without any preceding request from TVR, granted extra funds to TVR's budget, via the Ministry of Finance, to manage higher benefit payments during periods of very high unemployment. In doing so, it relieved TVR from having to propose hefty premium increases.

In accordance with the Act on the Financing of Unemployment Benefits, TVR maintains a business-cycle buffer generated from the difference between its income and expenses. This buffer is to safeguard its solvency and even out changes in unemployment insurance contributions caused by trend cycles in the national economy. TVR seeks to ensure the sufficiency of the business-cycle buffer by setting unemployment insurance contribution rates at an appropriate level, using diverse forecasting methods. However, if the buffer is depleted, TVR must maintain liquidity, for example, by issuing debt.

According to its investment principles, TVR is required to invest an amount equaling one month's expenses (about €300 million) in liquid money market instruments maturing in less than a year. At the end of 2014, TVR's investments and other financial assets amounted to €496 million (€868 million in 2013). In addition, TVR has the Finnish FSA's permission to borrow to secure its liquidity. TVR covers its funding needs through a €300 million commercial paper program, a €300 million revolving credit facility, and a €700 million state-guaranteed bank facility. Furthermore, in 2015, TVR intends to issue bonds totaling a maximum of €900 million. By the end of 2014, TVR's total borrowings amounted to €256 million.

TVR's budgetary performance mirrors the economic and employment conditions in Finland. Changes in employment and unemployment rates therefore have an impact on both its revenues (premium income base) and expenditures (unemployment payment base). However, because TVR has the tools to propose premium levels, differences between actual employment and unemployment rates compared with TVR's forecasts determine its performance, rather than year-to-year changes in those statistics.

In 2014, TVR's performance was weaker than it had forecast, and it reported a deficit of €673 million. The business-cycle buffer was therefore negative at the end of the year, with a shortfall of €11 million, compared with a surplus of €662 million in 2013. TVR covered this deficit through external borrowing.

Looking ahead, the level of unemployment insurance contributions has been raised for 2015. However, we think it is likely that TVR's 2015 deficit will be higher than budgeted. In April 2015, TVR forecast that the liability in its business-cycle buffer will exceed €700 million at the end of the year, requiring further external funding.

Outlook

The stable outlook on TVR reflects that on Finland. We currently do not see any scenario that would realistically lead us to change our assessment of TVR's critical role for and integral link with Finland over the next two years. We therefore expect the ratings on TVR to move in line with those on Finland.

Government Support And GRE Methodology Impact

Critical role for Finland: Sole entity responsible for managing the compulsory earnings-related unemployment insurance scheme, with a key role in determining Finnish employment policy

We assess TVR's role as critical for Finland, based on its status as the sole entity in charge of defining and managing the Finnish earnings-related unemployment insurance scheme. TVR was established in 1999, but was preceded by the Central Fund of Unemployment, which had been active since 1960. The Central Fund of Unemployment and, subsequently, TVR, have gradually assumed more responsibilities within the arena of unemployment and pension benefits, and are under the close guidance of the Ministry of Social Affairs. TVR's operations are based on the Act on the Financing of Unemployment Benefits that came into force on Sept. 1, 1998; the Decree on the Financing of Unemployment Benefits that came into force on Jan. 1, 1999; and on the Decree on the Rules of Procedure of the Unemployment Insurance Fund that came into force on Dec. 1, 1998.

TVR's two key functions are to collect unemployment insurance premiums and use them, mainly to pay unemployment benefits and fund pensions accrued during periods of unemployment. Furthermore, TVR manages the government's contributions to the unemployment funds. The benefits that TVR funds are paid to its beneficiaries through Finland's 30 unemployment funds. Unemployment insurance contributions for unemployed people and those in adult education are paid through the employment pension institutions.

Unemployment pension contribution is a statutory benefit and it is ultimately up to central government to ensure that citizens receive the benefits to which they are legally entitled. From a legal point of view, unemployment insurance is not an insurance policy, since the statutory income that TVR receives from employers and employees is more like a tax than an insurance premium. For this reason, the amount of unemployment insurance premium is laid down annually in an Act passed by Parliament. Consequently, we regard it as highly likely that central government will, in case of need, safeguard the payment of benefits.

Integral link with Finland: TVR's status of indirect public administration implies that its operations cannot be carried out by anything other than a government body

TVR's integral link with the Finnish government is evident from strong government supervision and control over TVR. Although TVR is an independent institution funded by employers and employees, it is under the close guidance of the Ministry of Social Affairs and it also interacts with the Ministry of Finance, (which makes proposals to the Parliament about state guarantees for some of TVR's liabilities), and the Ministry of Economic Development and Unemployment. Furthermore, TVR's operations are subject to supervision by the Finnish FSA.

TVR has the status of indirect public administration, which implies that if TVR did not exist, a government body would be needed to manage its duties. Furthermore, as TVR fulfils a public administration duty, it is treated on an equal basis with public authorities, and it must comply with the same administrative rules as public authorities. Examples of other Finnish institutions labeled indirect public administration are the Bank of Finland and the Social Insurance Institution and Municipal Guarantee Board. As defined in the Finnish Bankruptcy Act, TVR is an independent public institution that cannot be declared bankrupt, and according to the Finnish Corporate Reorganization Act, cannot enter into corporate reorganization proceedings. Furthermore, according to the Ministry of Social Affairs, there cannot be any issues associated with EU competition laws as TVR is not in a competitive sector.

TVR's supervisory board members are appointed by the Finnish government, which selects the individual members from employer and employee organizations. Two-thirds of TVR's governing bodies--the supervisory board and the board--are composed of employer representatives, and one-third of employee representatives. Hence it is the government that appoints TVR's board members, but it has no representation of its own on these governing bodies. A precondition for understanding the Finnish unemployment scheme is the significance of the so-called tripartite system, where the Finnish government and central labor market organizations (one organization representing employers and three organizations representing the employees) interact and are jointly involved in drafting legislation concerning various aspects of unemployment benefits. TVR has an obvious impact on premium income as on a yearly basis it submits to the Ministry of Social Affairs and Health a proposal concerning the unemployment insurance premium for the following year. At first glance, it seems that TVR in theory has no direct role in deciding the amount of unemployment benefits to be paid. However, as the labor market organizations are represented in TVR's management, and the same organizations are also involved in drafting legislation on unemployment benefits, this leads to a situation where TVR in practice is involved in decision-making about the amount of unemployment benefits to be paid.

TVR benefits from ongoing government support and we consider there is an "almost certain" likelihood of extraordinary support

TVR already benefits from strong ongoing government support through its unique status within the Finnish welfare system and its legal monopoly in the area of compulsory earnings-related unemployment benefits, which allows it to propose insurance premiums to the Ministry of Social Affairs and Health. Furthermore, TVR has been granted rights to maintain a financial buffer, it has the authority to take external loans, and it benefits from government guarantees on certain debt obligations.

Considering TVR's critical role of importance and integral link with the Finnish government, we believe that if TVR needed extraordinary financial assistance, there is an almost certain likelihood that the government would take preemptive actions and provide adequate and timely support.

Budgetary Performance: Closely Correlates With Finnish Economic Conditions And Unemployment Policies

TVR has responsibility for processing prepayment applications and payment decisions, together with monitoring the sufficiency of the prepayments. TVR makes prepayments to the unemployment funds twice a month, on the first banking day of the month and the banking day that is closest to the 15th day of the month. TVR also transfers the prepayments of government contributions to the unemployment funds on the first banking day of each month. The Ministry of Social Affairs and Health pays the government's contributions to TVR as fixed monthly payments, unless

TVR proposes otherwise.

TVR's budgetary performance is highly dependent on macroeconomic developments in Finland. Changes in employment and unemployment rates affect both its revenues (premium income base) and expenditures (unemployment payment base). However, as TVR has a mandate to propose next year's premium levels, increased unemployment does not necessarily weaken TVR's budgetary performance. It is rather the differences between actual employment and unemployment rates compared with TVR's forecasts when it is preparing a proposal for next year's premium levels that determine its performance.

In 2014, TVR's performance was weaker than it had forecast, and it reported a deficit of €673 million. Expenditure for which TVR is responsible increased by 24% from the previous year, while receipts decreased by 11%. In 2014, a total of €1,651 million was paid to the unemployment funds for financing the unemployment benefits. In addition, TVR transferred €1,054 million from the Ministry of Social Affairs and Health to the unemployment funds. Looking ahead, the level of unemployment insurance contributions has been raised for 2015, but it is nonetheless likely that the deficit for 2015 will be higher than the budget forecasts. Furthermore, a rapid rise in TVR's indebtedness indicates that there will be a need for a further rise in the level of unemployment insurance contributions in 2016.

Prudent And Efficient Management Of Payments, Investments, Loans, And Liquidity

In accordance with the Act on the Financing of Unemployment Benefits, TVR maintains a business-cycle buffer generated from the difference between its income and expenses. This buffer is to safeguard TVR's solvency and even out changes in unemployment insurance contributions caused by trend cycles in the national economy. The maximum allowed size of the buffer is the amount of annual expenses corresponding to an unemployment rate of 5%. During times of severe economic downturn, TVR may maintain a deficit equal to the amount of expenditure corresponding to this unemployment rate. When unemployment diverges from 5%, the maximum amount of the buffer (that is, both the maximum surplus and the maximum deficit) is calculated by dividing TVR's annual expenditure by the average unemployment rate for the year (8.7% in 2014) and multiplying the result by 5. In 2014, the maximum amount of the buffer, provided for in legislation, was €1,524 million.

The purpose of TVR's risk management is to identify and manage risks that could endanger its solvency or the continuity of its operations. TVR seeks to ensure the sufficiency of the business-cycle buffer by setting unemployment insurance contribution rates at an appropriate level, using diverse forecasting methods. However, if the buffer is depleted, TVR must maintain liquidity, for example, by issuing debt. Overall, we find TVR's flexibilities to be very strong in terms of its mandate to propose insurance premiums, hold buffer funds, and obtain loans to cover imbalances.

In 2014, TVR's financial performance was weaker than it expected, triggering a shortfall of €11 million (a surplus of €662 million in 2013) in the buffer fund. The level of unemployment insurance contributions has been raised for 2015, but it is nonetheless likely that the deficit for 2015 will be higher than the budget forecasts. Consequently, in April 2015, TVR forecasts that the liability in its business cycle buffer at the end of 2015 will exceed €700 million, which will require further external loan funding.

TVR is required to maintain a sound liquidity position at all times. According to its investment principles, TVR is required to hold an amount equaling at least one month's expenses (about €300 million) in liquid money market instruments with maturities of less than a year. At the end of 2014, TVR's liquidity consisted of investments and other financial assets amounting to €496 million (€868 million in 2013).

In addition, TVR has the Finnish FSA's permission to borrow funds in order to secure its liquidity. TVR covers its funding needs through a €300 million commercial paper program, a €300 million revolving credit facility, and a €700 million state-guaranteed bank facility. Furthermore, in 2015, TVR intends to issue bonds totaling a maximum of €900 million. By the end of 2014, TVR's total borrowings amounted to €256 million. Some, but not all, debt obligations benefit from an explicit state guarantee. According to TVR's Financing Act, the government may provide guarantees on loans if its liabilities exceed its assets, that is, if the buffer has a deficit. Currently, a €700 million syndicated loan facility is secured by an explicit state guarantee.

Table 1

TVR Profits And Losses

(Mil. €)	2014	2013	2012	2011	2010
Operating revenues	3,030.8	3,260.6	3,046.7	2,748.9	2,565.4
Of which contributions	2,955.9	3,191.1	2,998.1	2,722.0	2,552.1
Operating Expenditures	3,704.6	3,185.7	2,763.8	2,713.8	2,913.9
A. Operating result	(673.8)	74.9	282.9	35.1	(348.5)
Capital revenue	12.1	18.0	13.4	10.6	11.5
Capital expenditure	8.1	15.5	8.3	4.5	3.6
C. Investments	4.0	2.5	5.1	6.2	7.9
Financial revenues	(2.6)	0.5	4.1	1.6	3.4
Financial expenditures	0.7	0.3	0.7	0.4	0.6
C. Financial result	(3.3)	0.2	3.4	1.2	2.8
D. Net result (A+B+C)	(673.1)	77.6	291.4	42.400	(337.8)

Source: TVR financial statements.

Table 2

TVR Balance Sheet

(Mil. €)	2014	2013	2012	2011	2010
Fixed assets	0.43	0.7	0.8	0.5	0.7
Operating receivables	10.02	10.7	14.5	0.0	0.0
Marketable securities	381.60	774.9	647.4	371.8	308.2
Cash	39.77	24.9	67.5	0.3	0.2
Accruals	64.29	57.9	65.2	69.8	91.3
A. Total assets	496.10	869.11	795.34	442.5	400.44
Debt	255.9	0.0	0.0	0.0	0.0
Of which commerical paper	165.9	0.0	0.0	0.0	0.0
Of which revolving credit facility	90.0	0.0	0.0	0.0	0.0
Insurance contributions	42.3	21.3	10.1	0.0	0.0

Table 2

TVR Balance Sheet (cont.)					
Accruals	208.7	185.5	200.6	149.2	149.6
B. Liabilities (excluding net worth)	507.0	206.8	210.7	149.2	149.6
C. Accumulated surplus/deficit	(10.9)	662.3	584.7	293.3	250.8
Total liabilities (B+C)	496.1	869.1	795.3	442.5	400.4

Source: TVR financial statements.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

Related Research

- Supplementary Analysis: Finland (Republic of), Dec. 19, 2014

Ratings Detail (As Of June 12, 2015)	
Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
21-May-2015	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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