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Research Update:

Finland-Based Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund Affirmed At 'AA+/A-1+'; Outlook Stable

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Overview

- We consider that Työttömyysvakuutusrahasto, The Unemployment Insurance Fund (TVR) has an almost certain likelihood of receiving extraordinary support from the Finnish government, if needed, based on TVR's integral link and critical policy role to Finland, and therefore equalize our ratings on TVR with those on Finland.
- We note that the government doesn't provide a general guarantee for all of TVR's liabilities.
- We are affirming our 'AA+/A-1+' ratings on TVR.
- The stable outlook reflects the outlook on Finland.

Rating Action

On Sept. 24, 2018, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Finland-based Työttömyysvakuutusrahasto, The Unemployment Insurance Fund (TVR). The outlook is stable.

Rationale

We equalize our ratings on TVR with the ratings on Finland (AA+/Stable/A-1+). This 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. We believe that the almost certain likelihood of extraordinary government support for TVR, which we consider a nonseverable arm of the Finnish government, will endure and is not subject to transition risk. We, therefore, do not assess TVR on a stand-alone basis.

In accordance with our approach for rating government-related entities, 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 government's strong 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 as a public authority and therefore must comply with the same rules as public authorities. TVR works closely with the Ministry of Social Affairs and Health and, to some extent, it interacts with the Ministry of Finance and the Ministry of Employment and the Economy. Furthermore, TVR's operations are subject to supervision by Finland's Financial Supervisory Authority (FSA).

TVR's financial performance mirrors the economic and employment conditions in Finland. Changes in employment and unemployment rates therefore affect 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.

We expect Finland's economic cycle to peak in 2018, with output expanding by 2.9% for the full year. This marks the second consecutive year with growth rates of around 3% and in which activity has been buoyed by strong exports stemming from robust growth in the EU and the consequent significant investments in machinery and construction. The solid upswing has resulted in a strengthening labor market, demonstrating rising real wages, improved consumer sentiment, and higher employment levels (currently at 72%, a stated target set by the incumbent government). Notably, the booming economy has strengthened the labor market and unemployment is dropping toward its structural level around 7%. As a result, TVR's financial performance has strengthened notably over the past three years. TVR's performance during the first half of 2018 suggests a continuation of the stronger developments, with profits reaching €294 million, versus €233 million for the same period last year. We consider the underlying labor market dynamics will stay beneficial and foresee that the full-year result could approach €800 million. As such, we expect the net asset position, which reached surplus in 2017, will strengthen, nearing €1 billion by year-end 2018.

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. Following the weak economic performance in 2014 and 2015, the maximum limit on this buffer was increased to correspond to benefit payments at a 7% unemployment level rather than the previous 5%. 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. As of July 2018, TVR's investments and other financial assets amounted to €1.6 billion, compared with €1.1 billion at year-end 2017 and €704 million in 2016. In addition, TVR has the Finnish FSA's permission to borrow to secure its liquidity. TVR covers its funding needs primarily through a €300 million commercial paper program and a €400 million state-guaranteed revolving credit facility, both of which are currently unutilized. TVR also issued €900 million in bonds in 2015, which mature by 2019. TVR is paying its remaining debt maturities organically from its cash flows. After 2019 we expect that no long-term debt will remain on the entity's balance sheet. That said, we observe that a new National Incomes Register will be launched at the beginning of 2019. This, alongside a new model for the unemployment insurance contribution systems--whereby contribution payments to a greater extent will be based on realized wages rather than advance payments--could result in a need for TVR to temporarily bridge cash flow positions until the new model settles.

Overall, TVR benefits from strong access to loans and capital market funding, and in 2015 the European Central Bank accepted the company as an issuer under its Public Sector Purchase Program.

TVR's highest managing body, the supervisory board, is appointed by the central government and consists of both employer and employee organization representatives. As the unemployment insurance contributions is equalized between employees and employers, both contributing 1.9% as of Jan. 1, 2018, the board's composition will also change to reflect this and have equal representation from both employees and employers. 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 so far the parliament has always approved the premium levels in TVR's proposal.

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, has 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.

We understand that a merger with the Education Fund has been decided and will be completed in 2019. In our view, this has no impact on TVR's role and link with the government, nor on its operations, as the Education Fund already receives the majority of its funding from TVR. The only tangible impact will be an upcoming name change from TVR and Education Fund to the Employment Fund.

Outlook

The stable outlook 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.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Finland 'AA+/A-1+' Sovereign Ratings Affirmed; Outlook Stable, Sept. 14, 2018

Ratings List

Ratings Affirmed

Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund	
Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured	AA+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.