

# Kela Annual Report '05



## **KELA – A SERVICE FOR EVERYONE**

## **Supervised by Parliament**

The Social Insurance Institution (KELA) looks after basic security for all persons resident in Finland through the different stages of their lives. The social security benefits it pays include minimum pensions, disability benefits, health insurance benefits, rehabilitation benefits, basic security benefits for the unemployed, small-child care allowances, family allowances, maternity grants, student benefits, general housing allowances, conscript's allowances and special assistance for immigrants.

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.

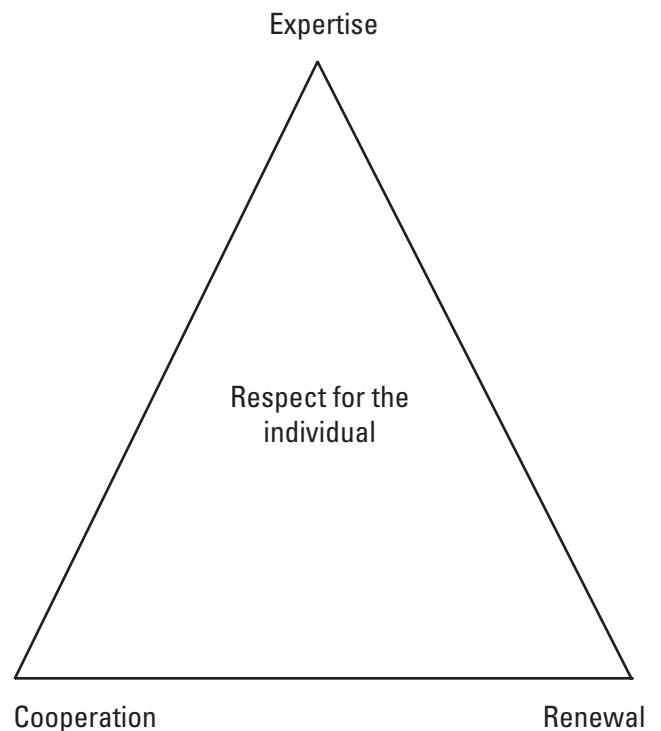
## **Close to the client**

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:

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 operations are based on the following values:



## KELA IN 2005

KELA's overall expenditure amounted to EUR 10.7 billion which was 1.5% higher than the previous year. EUR 10.4 billion in benefits were paid out in 2005. Benefit expenditure amounted to 6.7% of the GDP. Administrative expenses accounted for 3.1% of total expenditure. Total income was EUR 10.8 billion, 55% of which came from the central government and 32% of which came from insurance payments. EUR 0.9 billion in government liquidity guarantee payments were needed for funding.

Most Finns received some form of KELA benefit in 2005. Health insurance benefits were paid to 3.8 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.

At year end, KELA had 67 insurance districts i.e. 8 fewer than the previous year. There were 263 of KELA's own service outlets providing a full service every weekday and 47 secondary local sub-offices. KELA provided 152 services together with other parties.

At year end, the personnel numbered 6,095, 5,575 of whom were permanent employees. This figure is pretty much the same as it was the previous year. The full pension liability for KELA personnel was EUR 1.4 billion, 44% of which was covered.

At the end of the year, a decision was reached on the financial reform for health insurance. This reform came into force at the beginning of 2006 and it significantly changes the way health insurance is financed.

The work to develop the KELA telephone service continues. The aim is to provide a user-friendly and balanced telephone service for customers and in this way provide the best support to serve KELA's targets coherently.

The telephone service for consumers will be provided to people all over the country through KELA's contact centre. The contact centre will be made up of units. The first units providing a service in Finnish will be set up in Joensuu and Lieksa and a unit providing services in Swedish will be set up in Pietarsaari. These units will become operational in 2006.

2005 was a theme year for customer service. The aim, according to the customer service development programme for 2005-2008, is to improve service mindedness and promote and support the adoption of uniform principles and operating approaches in

customer service. In addition to this, the role of supervisors in management will be made clearer and KELA's public image will be improved.

By the end of March 2006, every member of KELA personnel had participated in customer service seminars that had begun in the autumn and were part of the implementation of the programme. In all approximately 130 seminars will be organized making this the largest and most significant training campaign that has ever been arranged by KELA. Over 6,000 course days were provided for the personnel.

Seinäjäki insurance district received the award in the internal quality competition and the Eastern Finland insurance district received an honourable mention.

## BENEFITS PAID BY KELA ALL BENEFITS

KELA's benefit payments grew nominally by 1.7% on the previous year and in real terms by 0.7%. The total amount of benefit payments came to EUR 10.4 billion. There were 59 million payments of which approximately 18 million came from pharmacies.

Of the benefits, health insurance benefits increased by 5.9% and benefits paid to families with children by 1.8% and pensions and disability benefits by 0.7% while unemployment security benefits decreased 5.4%, rehabilitation benefits 0.7% and financial aid for students 0.4%.

	2005 EUR Million	2004 EUR Million	Change %
Pensions and disability benefits	2,869.0	2,847.6	0.7
Health insurance benefits	3,050.0	2,878.9	5.9
Rehabilitation benefits	284.6	286.6	-0.7
Unemployment security benefits	1,135.4	1,199.6	-5.4
Benefits for families with children <sup>1</sup>	1,832.5	1,799.3	1.8
Financial aid for students	728.2	731.4	-0.4
General housing allowance	436.9	436.4	0.1
Other benefits	54.8	35.8	53.1
Total	10,391.4	10,215.6	1.7

<sup>1</sup> Daily parenthood allowances are included in the health insurance benefits.

## KELA IN BRIEF

	2001	2002	2003	2004	2005
Overall expenditure, EUR billion	9.6	10.0	10.3	10.6	10.7
Benefits, EUR billion	9.3	9.7	9.9	10.2	10.4
Administration expenditure /total expenditure, %	3.1	3.1	3.2	3.3	3.1
Benefits/GDP, %	6.8	6.9	6.9	6.8*	6.7*
Benefits/social expenditure, %	26.6	26.2	25.6	25.2*	24.6*
Benefits/Insured person, EUR/year	1,784	1,859	1,902	1,951	1,976*
Staff on December 31	6,006	6,124	6,171	6,082	6,095

\* Estimate

## NATIONAL PENSION SECURITY AND DISABILITY BENEFITS

Pension payments totalled EUR 2,761 million and disability benefit payments EUR 108 million. Pension payments were EUR 23.0 million (0.8%) greater than the previous year and disability benefits declined EUR 1.6 million (1.5%) compared with the previous year.

The number of pension recipients was 792,000 at the end of the year which is 0.5% fewer than the previous year. The number of old-age pension, unemployment and survivors' pension recipients decreased while the number of disability pension recipients and those only receiving pensioners' housing allowances, pensioners' care allowances, child increases or front-veterans' supplement continued to grow. There was an increase in the number of recipients of housing allowance, pensioners' care allowance or child increase, and a decline in the number of those receiving the national pension (reducible by earnings-related pension) and the front veterans' supplement. The number of people receiving the full national pension was 97,000 (a decline of 2.8%).

The number of recipients of child care allowance decreased by 1,200 (3.1%) to 37,800 at the end of the year. The number of people receiving the disability allowance increased by 2.6% to 26,600. As in the previous year, the increase was due to the rise in diet allowance. The diet allowance was being paid to 22,200 people at year end either as pensioners' care allowance or disability allowance.

KELA received a total of 406,000 claims for pension, pension addition, disability allowance or benefit adjustment (an increase of 7.7%). Altogether 30,900 (7.6%) were claims from abroad, submitted on the basis of an EC regulation or social security conventions. Of all the applications, 34% were claims for new pensions or disability allowances.

The average national pension at the end of the year was EUR 293 per month, including front-veteran's supplement. The national pension of a single person entirely dependent on national pension was EUR 505 per month in the first municipal cost-of-living class. The average housing allowance received by pensioners was EUR 144 per month at the end of the year.

## PENSIONS AND DISABILITY BENEFITS

Pensions	2005 EUR million	2004 EUR million	Change %
<b>Pensions paid</b>	2,760.9	2,738.0	0.8
National pensions	2,635.4	2,603.4	1.2
Old-age pensions	1,735.6	1,739.4	-0.2
Under-65s	7.0	6.3	10.7
Disability pensions	756.9	729.5	3.8
Individual early retirement pensions	4.9	7.1	-31.7
Unemployment pensions	46.4	47.2	-1.7
Other <sup>2</sup>	94.5	86.7	9.1
Survivors' pensions	37.9	38.8	-2.1
Front-veterans' supplements	87.6	95.9	-8.7
Other benefits	4.2	4.4	-3.7

Number of pensioners	Dec.31 2005	Dec.31 2004	Change %
Pensioners, total	792,000	796,000	-0.5
National pension recipients	758,900	762,300	-0.4
Old-age pensioners	482,700	489,400	-1.4
Under-65s	4,100	2,700	-52.0
Disability pension recipients	154,900	153,000	1.3
Individual early retirement pensions	2,200	2,900	-25.6
Unemployment pensions	21,600	21,900	-1.2
Other <sup>2</sup>	99,700	98,100	1.6
Survivors' pensions	33,000	33,700	-2.0

Structure of national pensions	Dec.31 2005	Dec.31 2004	Change %
National pension recipients total	659,300	664,300	-0.8
full	97,000	99,800	-2.8
reduced by employment	562,300	564,500	-0.4
Other national pension <sup>2</sup>	99,700	98,100	1.6
National pension recipients with housing allowance	168,900	167,100	1.1
pensioners' care allowance	189,700	181,200	4.7
front-veterans' supplement	94,200	103,600	-9.1
front-veterans' additional supplement	47,600	53,200	-10.5
child increase	13,800	13,500	2.3

<sup>1</sup> Includes the housing allowances and child increases paid to the long-term unemployed

<sup>2</sup> Pensioners' housing allowances, pensioners' care allowances and child increases paid by KELA to people with no actual pension.

<sup>3</sup> The person receives only pensioners' housing allowances, pensioners' care allowances and front-veterans' supplement or child increases from KELA.

Disability benefits	2005	2004	Change
<b>Allowances paid</b>	EUR million	EUR million	%
Child disability allowances	72.7	74.1	-2.0
Disability allowances	35.4	35.5	-0.4
<b>Number of persons receiving</b>	Dec. 31 2005	Dec. 31 2004	Change %
Child disability allowances	37,800	39,000	-3.1
Disability allowances	26,600	26,000	2.6

## NATIONAL HEALTH INSURANCE

Health insurance benefit expenditure grew by EUR 171 million on the previous year (5.9%). KELA paid out EUR 3,050 million in health insurance benefits, which were received by 3.8 million people (an increase of 0.1%).

The reimbursement of medical expenses grew by 5.7%. Of compensation for loss of income, daily sickness allowance increased by 5.3% and daily parenthood allowance by 5.5%. Annual leave expense compensation that is part of parenthood allowance was paid out to the employers of 19,400 employees and totalled EUR 22.4 million (an increase of 4.9%).

At the beginning of 2003, fathers were granted the right to paternity allowance for 12 consecutive weekdays, if the father took the last 12 weekdays of the parental leave (so-called paternity month). This extended paternity allowance was paid to 4,500 fathers and totalled EUR 3.4 million (an increase of 400 persons on the previous year).

The average amount of daily sickness allowance was EUR 44 and daily parenthood allowance EUR 41.

Daily sickness allowance of the minimum amount or less was paid to 15,800 people (increase of 32.0%). Earnings-based daily parenthood allowance of the minimum amount was paid to 20,400 people (increase of 7.7%). The increase in the number of those who received daily allowance of the minimum amount is the result of the increase in the minimum amount of daily allowance at the beginning of 2005 to EUR 15.20 per day (previously EUR 11.45 per day) in accordance with the Sickness Insurance Act.

The number of daily sickness allowances settled was 665,000 (an increase of 3.3%). The average processing time for claims was 14 days. The processing time was 15 days in the previous year. The total number of payments for the reimbursement of medical expenses was 27.0 million (an increase of 1.2%).

Of reimbursements for medicine costs, the reimbursement of medical expenses grew 6.1% (EUR 61.6 million). In the previous year the corresponding figures were 10.6% and EUR 97 million.

## HEALTH INSURANCE BENEFITS

	2005 EUR Million	2004 EUR Million	Change %
<b>All benefits</b>	3,050.0	2,878.9	5.9
Compensation for loss of income	1,374.9	1,305.0	5.4
Daily sickness allowance <sup>1</sup>	705.5	670.2	5.3
Daily parenthood allowance <sup>2</sup>	669.4	634.7	5.5
Medical expenses compensation	1,449.4	1,371.1	5.7
Other benefits	225.8	202.9	11.3
All medical expenses compensation	1,449.4	1,371.1	5.7
Medicines	1,076.1	1,014.5	6.1
Basic compensation (50%)	369.9	360.0	2.7
Special compensation (75%)	237.4	237.9	-0.2
Special compensation (100%)	370.1	328.2	12.8
Additional compensation for medicines <sup>3</sup>	99.5	88.5	12.5
Doctors' fees	62.5	64.6	-3.2
Dentists' fees	91.5	95.0	-3.7
Examination and treatment	55.5	56.2	-1.2
Travel costs	163.9	140.8	16.4
Additional compensation for travel costs <sup>3</sup>	35.2	26.3	34.2

<sup>1</sup> Includes daily allowances and loss-of-earnings compensation paid under the Act on Communicable Diseases, as well as daily allowances paid to donors of organs or tissues.

<sup>2</sup> Includes special care compensation and compensation to employers for annual leave costs.

<sup>3</sup> In 2005, the maximum level of personal liability for the cost of medicines was EUR 606.95 and for travel EUR 157.25.

## RECIPIENTS OF HEALTH INSURANCE BENEFITS

	2005	2004	Change %
<b>All benefits</b>	3,849,900	3,844,900	0.1
Daily sickness allowances	345,300	335,500	2.9
Daily parenthood allowances	146,600	145,400	0.9
Compensation for medical care	3,783,200	3,781,100	0.1
Compensation for medicines	3,261,500	3,271,600	0.3
Basic compensation (50%)	3,100,200	3,112,900	-0.4
Special compensation (75%)	828,200	817,500	1.3
Special compensation (100%)	454,500	437,600	3.9
Additional compensation for medicines <sup>3</sup>	167,600	158,400	5.8
Doctors' fees	1,491,400	1,497,300	-0.4
Dentists' fees	1,016,400	1,028,600	-1.2
Examination and treatment	849,300	789,300	7.6
Travel costs	623,900	587,500	6.2
Additional compensation for travel costs <sup>3</sup>	45,100	39,600	13.9

Savings in reimbursements of medicine costs resulting from generic substitution totalled EUR 13.8 million in 2005 (EUR 16.9 million in 2004).

The number of people receiving basic compensation for medicine costs decreased somewhat (0.4%), while the number of those claiming special compensation rose by 1.8%. The number of people receiving additional compensation for medicine costs increased by 5.8%.

2003 was the first year when the right to dental care reimbursable out of health insurance was extended to cover the entire population. In 2005, reimbursements for dentists' fees decreased 3.7% from the previous year, and the number of people receiving the reimbursements totalled 1,016,000 (a decrease of 1.2%).

Reimbursements for doctors' fees decreased by 3.2% and reimbursements for examination and treatment costs by 1.2%. However, the number of persons receiving reimbursement for examination and treatment costs increased 7.6%. From 2005 the reimbursement for travel costs also included reimbursement for travel provided as part of rehabilitation. Reimbursements for travel costs increased by 16.4% on the previous year.

Occupational health care expenditure increased 8.4% and totalled EUR 200 million. Reimbursements paid to employers came to EUR 177 million (increase of 8.7%), while EUR 21 million was paid to the Student Health Foundation. Reimbursement of occupational health care expenses paid to entrepreneurs and other self-employed persons stood at EUR 0.2 million, while health centres received EUR 0.7 million.

## REHABILITATION

KELA's rehabilitation expenditure totalled EUR 285 million, which was 0.7% lower than the previous year. Travel costs for rehabilitation were reimbursed from the beginning of 2005 in accordance with the Sickness Insurance Act. The cost of individual rehabilitation was EUR 279 million, EUR 220 million of which was spent on rehabilitation (an decrease of 3.0%) and EUR 59 million on rehabilitation allowances (an increase of 0.9%).

KELA's rehabilitation services were spread over 86,800 people, which was a 0.7% increase on the previous year. Half of these were new rehabilitees. Rehabilitation allowance, which is paid as income security for the duration of the rehabilitation, was paid to 62,000 persons, an increase of 2.6% on the previous year. Rehabilitation allowance was paid for an average of 37 days, and totalled about EUR 26 per day.

A large part of rehabilitation arranged by KELA constitutes discretionary (medical) rehabilitation and was received by 50,200 people, over half the rehabilitees. Vocational rehabilitation was received by 17,000 people with reduced functional capacity and 21,500 severely disabled persons received medical rehabilitation.

With 15,100 persons taking part, ASLAK® courses (vocationally oriented medical rehabilitation) were the most common measure for discretionary rehabilitation. Courses designed for various types of illnesses were attended by 10,800 people. Discretionary psychotherapy was received by 9,100 rehabilitees, 3,300 of whom took part in psychiatric rehabilitation for children and young people.

Of all the recipients of rehabilitation allowance, 71% (44,000)

participated in rehabilitation arranged by KELA. The largest group by far receiving rehabilitation allowance on the basis of other legislation comprised those with a rehabilitation decision based on the Occupational Health Care Act.

## UNEMPLOYMENT SECURITY

KELA's unemployment benefits expenditure decreased by 5.4%, totalling EUR 1,135 million, of which EUR 972 million was paid as labour market subsidy (a decrease of 5.4%) and EUR 119 million in basic daily allowance (a decrease of 4.2%). There was a decrease in all unemployment benefit expenditure.

Unemployment benefits were paid to 304,400 people during the year, with benefits paid for an average of 152 days per person. Basic daily allowance was paid to 52,800 people (a decrease of 3.6%) and labour market subsidy to 240,600 people (a decrease of 3.3%). In addition, labour market subsidy was paid as combined subsidy to the employers of 34,900 long-term unemployed people (a decrease of 3.3%) and integration allowance was paid to 10,600 immigrants (an increase of 1.5%).

Altogether, 73,000 of those receiving labour market subsidy took part in labour market training, trainee work or other labour market programmes during the year. In addition, 4,700 recipients of labour market subsidy participated in rehabilitation work and 700 received a labour market subsidy in the form of travelling allowance. 8,900 of those receiving integration allowance participated in labour market activities or equivalent measures. 30% 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 22.60, while the average daily labour market subsidy was EUR 24.40. An adjusted daily allowance was paid for at least part of the year to 25% of daily allowance recipients and 14% of those receiving labour market subsidy.

Labour market training support was paid to 6,200 people. 34,900 recipients of labour market subsidy and 5,800 recipients of integration allowance participated in labour market training. A total of EUR 41 million was granted in training benefits. EUR 3 million was paid in daily training allowance to 1,100 people.

KELA took a total of 746,000 decisions on claims for unemployment security (a decrease of 2.1%). 272,000 new claims were settled, and the median processing time was 7 days. Of the new claims, 87% were settled within four weeks of the applications arrival.

## BENEFITS FOR FAMILIES WITH CHILDREN

Expenditure on child day-care subsidies increased by 10.5%. Child home care allowance for one child under the age of 3 and private day-care allowance were increased from the start of 2005. Child day-care expenditure amounted to EUR 397 million. This sum includes EUR 340 million in child home care allowance, EUR 48 million in private day-care allowance and EUR 9 million in partial care allowance. Municipal supplements amounted to EUR 57 million.

Child day-care subsidies were paid for a total of 212,700 children to 143,800 recipients (an increase of 4.0%). Of these, 18,400 were recipients of private day-care allowance. From the beginning

of August, eligibility for partial care allowance was extended to parents of children in the first and second year of their basic education. In December 2005, 10,300 parents received partial care allowance, which was almost as many as in December 2004.

Maternity grants totalling EUR 11.0 million were paid (a decrease of 1.1%), including adoption grants of EUR 1.1 million for offsetting some of the costs of international adoption. Maternity grants were paid to 56,900 people, 278 of whom also received adoption grants.

The total amount of family allowance paid was EUR 1,424 million (a decrease of 0.3%). In December, family allowance was paid

to 570,000 families (a decrease of 0.1%), with increased family allowance paid to 101,000 single-parent families. Family allowance was paid for 1,034,000 children, and the increased family allowance for 157,000 children.

## FINANCIAL AID TO STUDENTS

Student benefits expenditure decreased by 0.4%. Benefits totalled EUR 728 million, of which EUR 700 million was for study grants and EUR 28 million for school transport subsidy grants.

Study grants totalling EUR 432 million and housing supplements totalling EUR 232 million were paid. Interest subsidy and interest

## OTHER BENEFITS

	2005 EUR Million	2004 EUR Million	Change %
Rehabilitation	284.6	286.6	-0.7
Rehabilitation services	214.6	225.9	-5.0
Rehabilitation allowance	59.2	58.6	1.0
Other expenditure	10.8	2.1	418.9
Unemployment protection <sup>1</sup>	1,135.4	1,199.6	-5.4
Basic unemployment allowance <sup>2</sup>	118.7	123.9	-4.2
Labour market subsidy <sup>3</sup>	971.7	1,027.0	-5.4
Labour market subsidy as combined subsidy	94.6	99.2	-4.6
Labour market training	41.5	45.0	-7.8
Daily training allowance	3.3	3.5	-4.1
Maternity grant	11.0	11.1	-1.1
Family allowance	1,424.4	1,428.8	-0.3
Child day-care subsidies	397.0	359.3	10.5
Statutory allowance	340.0	305.8	11.2
Municipal supplements	57.1	53.5	6.6
Student benefits	728.2	731.4	-0.4
General housing allowance	436.9	436.4	0.1
Conscript's allowance	15.2	14.4	5.7
Special assistance for immigrants	17.0	15.0	13.3
Pension assistance for the long-term unemployed <sup>4</sup> (from 1.5.2005)	16.1	-	-
Other	2.2	2.0	12.6

<sup>1</sup> Includes job alternation compensation.

<sup>2</sup> Includes earnings-related allowances paid out by KELA to Finnish nationals seeking employment outside Finland.

<sup>3</sup> Includes maintenance allowances and travelling allowances paid during traineeships or instruction for working life and during rehabilitation work.

<sup>4</sup> Housing allowances and family allowances associated with pension assistance are included in the pensions.

## OTHER BENEFITS: Recipients

	2005	2004	Change %
Rehabilitation	105,100	104,300	0.8
Rehabilitation services	86,800	86,200	0.7
Rehabilitation allowance	62,000	60,400	2.6
Unemployment protection			
Basic unemployment allowance or labour market subsidy	285,600	295,900	-3.5
Basic unemployment allowance	52,800	54,800	-3.6
Labour market subsidy	240,600	248,900	-3.3
Labour market training	34,900	36,700	-5.0
Training/Instruction for working life	41,200	40,100	2.9
Rehabilitation work	4,700	4,000	18.7
Travelling allowance	700	700	-2.9
Labour market subsidy as combined subsidy	34,900	36,100	-3.3
Labour market training support	6,200	6,300	-0.8
Daily training allowance	1,100	1,100	3.9
Labour market subsidy as integration allowance	10,600	10,400	1.5
Maternity grant	56,900	56,500	0.8
Family allowance			
Families (Dec 31)	569,600	570,400	-0.1
Children (Dec 31)	1,034,400	1,040,000	-0.5
Child day-care subsidies			
Families	143,800	138,300	4.0
Children	212,700	207,100	2.7
General housing allowance (households) (Dec 31)	154,800	159,300	-2.8
Student benefits			
Financial aid to students	292,900 <sup>1</sup>	295,800 <sup>2</sup>	-1.0
School transport subsidy	49,600 <sup>1</sup>	50,600 <sup>2</sup>	-2.0
Conscript's allowance (households)	12,200	12,300	-0.8
Special assistance to immigrants (Dec 31)	4,100	3,600	14.0
Pension assistance for the long-term unemployed (Dec 31)	2,800		

<sup>1</sup> Academic year 2004/2005.

<sup>2</sup> Academic year 2003/2004.

allowance for study loans totalled EUR 1.6 million, payments made on the basis of government guarantees for student loans EUR 18 million and meal subsidy for students in higher education EUR 20 million.

At the year end, 240,000 students were receiving financial aid from KELA (a reduction of 1.4%). Of these, 74,000 were at university, 74,000 at a polytechnic, 64,000 at a vocational institution, 19,000 at an upper secondary school, 3,800 were studying abroad and 4,600 were studying at other institutions. Student loans totalled EUR 1.3 billion at year end (a decrease of 0.8%). There were 318,000 students with student loans (a reduction of 3.1%). The average loan was EUR 4,200. The guarantee liability capital being recovered totalled EUR 182 million (a decrease of 0.1%).

Decisions on financial aid claims totalled 423,000, 110,000 of which were processed at KELA Student Financial Aid Centre, 135,000 at university and polytechnic financial aid centres and 177,000 at KELA branch offices.

School transport subsidy was paid to a total of 64,100 students, with expenditure reaching EUR 28 million (an increase of 9.7%). Matkahuolto Ltd invoicing accounted for 68% of the total.

## GENERAL HOUSING ALLOWANCE

General housing allowance totalled EUR 437 million, a 0.1% increase on the previous year. At year end, households receiving housing allowance numbered 154,800 (a decrease of 2.8%). Families with children accounted for 40%, single people for 53% and students for 9%. The number of unemployed recipients was 100,000, i.e. 65%. The average housing allowance at year end was EUR 233 a month (EUR 214 in 2004). Average housing expenditure per household was EUR 436 a month. 94% of recipients lived in rented housing and the actual housing expenditure of half of these recipients exceeded the maximum amount that was permitted as a basis for the housing allowance. Housing expenditure exceeded the housing allowance by EUR 1.75 m<sup>2</sup> /month on average. General housing allowance covered a total of 310,800 people at the end of the year, 7% of the population under 65.

During the year under review, KELA took 342,500 decisions on claims for general housing allowance (a decrease of 4.4%). The average processing time for claims was reduced to 20 days, which was two days shorter than in 2004.

## OTHER BENEFITS

Expenditure on conscript's allowances increased by 5.7%. A total of EUR 15 million was paid and housing assistance accounted for EUR 13 million of this. Conscript's allowances were paid to a total of 12,200 households (0.8% less than in 2004). When other family members are included, the allowances covered a total of 12,900 people. Of the recipients, 10,200 were doing their military service, 1,100 were performing non-military service and 1,000 were relatives. Recipients of conscript's allowance had a total of 800 children.

Compensation for the rehabilitation travel expenses of front veterans came to EUR 0.9 million. Studies on farmers' working conditions were funded to a total of EUR 1.0 million and the National Centre for Agricultural Health, which operates under the Institute of Occupational Health, was reimbursed a total of EUR 0.3 million.

In 2005, special assistance to immigrants was paid to 4,100 people, totalling EUR 17 million. The average amount of assistance paid was EUR 353 per month.

From May pension assistance was paid to the long-term unemployed. This assistance totalling EUR 16 million had been paid to 2,800 people by the end of 2005. The average amount of assistance paid was EUR 782 per month.

## Recovery

The number of benefits claimed for recovery at year end was EUR 114.2 million (EUR 112.8 million in 2004). The amount of outstanding government-guarantee payments of financial aid for students totalled EUR 182 million. The amount of outstanding guarantee payments ceased to increase. Attempts have been made to prevent claims for recovery being made by providing better information. Plans for centralizing the recovery procedure are now being made on the basis of a memo that was completed on August 18, 2005 and practical testing, in order to make recovery more effective.



## OTHER KELA OPERATIONS

## CUSTOMER SERVICES AND THE SERVICE NETWORK

At year end, KELA's five insurance regions comprised 67 insurance districts altogether. There were 310 branches in different parts of Finland providing client services; 263 of these were full-service offices with daily office hours, while 47 were sub-offices with restricted office hours. KELA was also involved in 152 joint-service projects.

KELA offices on December 31, 2005

Insurance region	Full-service offices	Sub-offices	Total offices
Northern Finland	43	17	15
Western Finland	43	8	49
Eastern Finland	56	16	31
Southwestern Finland	52	4	33
Southern Finland	69	2	24
Total	263	47	152

The process of merging KELA's insurance districts continued during the year under review and a total of 12 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 offices received 95,700 claims for employment pensions, which is 8.0% more than in 2004. KELA's customer feedback system was contacted over 5,200 times and approximately 500 customer emails were sent to the Communications Unit.

A customer questionnaire was given to people visiting KELA offices over the period August 3 to 10, 2005 (17,307 respondents). On the basis of this questionnaire KELA was awarded the general grade of 9.0 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

The main target of KELA's personnel strategy is to establish a well-managed, skilled and innovative working community characterized by cooperation and mutual respect. Achievement of this target is supported by a far-sighted personnel policy which is based on KELA's operating strategy, changes in the operating environment and planning workforce resources over the long term and forecasts of the workload.

The 2010 personnel plan was further defined. In December, the Board approved the personnel plan which extends until 2010 and the aim of which is to ensure that personnel numbers correspond with workload.

The preparation for the reform of the financial administration information systems (TAHA) which have a significant impact on personnel operations continued. The target processes were defined in 2005 and future operational methods and models were prepared.

The so-called TAIKA operational model, which stands for a new beginning for workplace health promotion, was further defined in 2005. KELA's success is based on its skilled personnel management and its aim is to make workplace health promotion a permanent part of the everyday life of workplaces. The extensive training of immediate supervisors in 2005 and the launch of the TAIKA network both support the positive development of well-being at work, which has continued for five years now. In addition to activities which focus on work and work processes, the well-being of KELA personnel is also supported by developing know-how in diverse ways, by taking care of occupational health and supporting leisure time fitness activities.

A total of 741 training courses were held during the year (706 in 2003). These were attended by 15,686 people (15,001), totalling 19,124 course days (18,179). Employees also participated 1,190 times in courses that were arranged externally (1,267).

Personnel development focussed on customer service training which is associated with the customer service development programme for 2005-2008. The aim of this programme is to ensure that KELA provides a coherent service for its customers. The customer service training will continue so that by the end of November 2006 every member of KELA personnel will have participated in this training.

Every member of staff at KELA's contact centres was provided with extensive training dealing with, among other things, the operating model and principles of the telephone service and KELA benefits. Immediate supervisors were provided with training to support their work. This training comprised different sub-areas and 260 immediate supervisors participated in this training. A new tool in the provision of training was acquired when an online learning environment was introduced at the beginning of 2005.

## Personnel figures 2005

Numbers of personnel	2004	2005
<b>Entire personnel</b>	6,082	6,095
Full-time	5,134	5,150
Part-time	948	945
<b>Permanent members of staff</b>	5,542	5,575
Full-time	4,657	4,699
Part-time	885	876
<b>Entire personnel</b>		
Local administration	3,966	3,915
Central administration	1,314	1,309
Regional administration	262	351
<b>Information on permanent members of staff</b>	2004	2005
Average age	47.9	47.2
Educational level index	4.9	4.9
Number of training course days/person	3.4	3.6
Sick days index	3.8	4.0
Members of staff leaving KELA	264	237
New members of staff	220	273
Retirement age	61.4	61.4
Members of staff taking old-age pension	115	96
Members of staff taking disability pension	59	50

## DATA PROCESSING

The systems to improve the performance of customer services, the processing of benefits and administration were developed in accordance with the data processing development plan.

New e-transaction and data exchange services were started. Towards the end of the year, the total reform of applications for financial, materials and personnel administration was implemented. Applications based on the OS/2 operating system were converted so they could function on any platform. The updated online document management system was introduced, and the measures required to distribute the workload more evenly were implemented.

Pension assistance for the long-term unemployed was introduced as a new benefit. The changes in earnings legislation regarding daily allowances and the reform of the legislation concerning refunds on medicines were implemented. The standardization of benefits processing systems continued. International data communications were developed. New statistics were produced for the Kelasto reporting system and the specifications for the document archive for administration documents were defined.

Practically all of KELA's approximately 7,000 workstations were replaced in 2005. At the same time the OS/2 operating system in the old workstations was replaced with the Windows XP operating system and approximately 2,800 MS Office suites were introduced. In conjunction with these application changes, Windows and Linux servers were also introduced.

The capacity of the mainframe computers was increased in May, when the new browser-based systems were expected to increase the need for capacity significantly compared with the shared applications that they were replacing. ATM technology was replaced by Ethernet-based communications in conjunction with the modernization of KELA's data communications network.

Online services for the public were adapted according to plan. The number of identified users in the so-called Katve service increased so that by the end of the year the number of people using the service every month had reached approximately 40,000. During the year, the number of e-transactions reached 1.5 billion, 18 million messages were sent via email, and 20.2 million documents were mailed.

## COMMUNICATIONS

KELA's graphic guidelines (ILME) were adapted. A comprehensive communications strategy was prepared for the entire organization.

During the year under review there were 4.9 million visitors to the KELA website (3.4 million the previous year).

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 (18,000 copies each) of *Sosiaalivakuutus*.

About 72 media bulletins were issued. In addition, a total of 11 briefings, meetings with reporters and gatherings for interest groups were arranged. The latest *Kelainfo* brochures provided information on the reforms that came into force on October 1 and

on parental allowance for students. The brochure on student loan repayments was updated.

The Finnish and Swedish brochures on basic social security (10 brochures) and the English-language brochure 'A Guide to Benefits' were updated. An online version of the brochure on social security for entrepreneurs was created in cooperation with the Finnish Centre for Pensions, Fennia Group and the Federation of Finnish Enterprises.

KELA was represented at the Finnish Medical Convention in January, the Next-Step job and training fair in Turku in April, the Child Fair in Helsinki in July-August, the Farmari Agricultural Fair in Tampere in September, the Kuntamarkkinat municipal fair in Helsinki and the register day and the Studia study fair in Helsinki in November.

## STATISTICS AND CALCULATIONS

The work on statistical architecture was continued by completing the data content of the Kelasto browser-based system. 32 new dynamic reports were produced and the content of the Statistics pages on the KELA website was expanded. Statistical bulletins were produced only in electronic format. Reporting by the management was developed by preparing an electronic system to support performance agreement processes.

Publications produced during the year included the KELA statistical yearbook, pocket statistics published in five languages and eight annual statistical reviews, which were published as part of Finland's official statistics series. A total of 15 printed statistical publications were produced. In addition to this, KELA published statistics on pensioners in Finland together with the Finnish Centre for Pensions in two separate publications and a statistical publication on the use of pharmaceuticals in Finland with the National Agency for Medicines. KELA also published a statistical publication on Finnish unemployment security together with the Insurance Supervision Authority. The statistics on the use of pharmaceuticals in Finland were also published in electronic format.

Forecasts and calculations were obtained for the planning, funding and implementation of social security. The calculation systems required in the preparation of the financial reform for health insurance were created. The long-term forecasting model became operative. The changes to the pension liability calculation system that were required by the earnings-related pension reform were made. The comparison of systems used for forecasting was carried out with the other Nordic countries and the United Kingdom and cooperation regarding the development of these systems was launched.

## RESEARCH & DEVELOPMENT

During the year under review, the development of KELA's social and health security systems, and KELA's strategic management were supported by scientific research and specialist work. New information from research was produced, published and distributed, and passed on to develop social security and public debate. Emphasis was placed in particular on easy access to and use of research data and active cooperation, networking and visibility.

Research focused on social and health security systems, KELA benefits, application of social security and KELA administration. The emphasis of research was on the inspection of social security,

research into basic social security and rehabilitation was intensified, the tools for the assessment of financial well-being were developed, monitoring and register data were used and surveys were compiled from research data.

The publication "Onko meillä malttia sijoittaa lapsiin?" (Do we have the presence of mind to invest in our children?), a compilation of articles on family policy issues, was launched at a research seminar on family policy. During the year under review 13 research reports were published in the social and health research publication series. In addition to KELA's publication series, various articles and research reports were published in domestic and international publications during 2005. Research reports were published at briefings and information events and through the Internet in cooperation with the KELA Communications Unit.

Open research seminars were organized for KELA's cooperation partners. These seminars dealt with, among other things, the role of and opportunities for economics research in basic social security, rehabilitation and health insurance research, the assessment of social policy programmes and cases of unfair treatment and the fairness of a welfare society.

## 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 intranet and Internet. 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 makes up a considerable part of international operations. KELA took part in related negotiations with the national social insurance institutions in other Nordic countries and the Baltic States, and bilaterally with Sweden, Austria, the United Kingdom and Hungary. KELA participated in the work of the social security committee under the Nordic Council of Ministers, aiming at finding solutions for removing boundaries restricting mobility within the Nordic countries.

KELA continued to cooperate with authorities and social insurance organizations in many countries. It also remained actively involved in the work of the International Social Security Association (ISSA), the World Health Organization (WHO) and the Foundation for International Studies on Social Security (FISS). There was also some cooperation with social security research institutes in EU Member States and other countries.

The tasks of international electronic information exchange expanded significantly. For example, the Netcards Project involving ten EU Member States has already produced results that are suitable for application. The verification of insurance information in the European information network by means of a chip card is on trial in this project. Finland and Estonia have developed new technology for a data transfer model from which benefit can be derived in invoicing medical treatment costs.

KELA took part in managing and organizing international research meetings, including the European Network of Social Insurance

for Health and the Symposium on the New Social Security Coordination Regulation in the EU.

## Rehabilitation Centre Petrea

KELA's Rehabilitation Centre Petrea produces rehabilitation services for KELA and other clients. 2005 was eventful and productive. Profits for the year under review reached almost EUR 320,000 (206,000). Petrea had a turnover of EUR 8.5 million (EUR 8.1 million). The number of customer days totalled 46,718, an increase of 3% on the previous year.

## FINANCIAL STATEMENTS OPERATING REPORT BY THE BOARD OF DIRECTORS FOR 2005

### 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 12 Trustees appointed by Parliament. Pursuant to Section 5, KELA's internal regulations have been approved by the Trustees.

In accordance with Section 7, KELA's operations are managed and developed by a 10-member Board of Directors, eight of whom are appointed by the Trustees. The other two members of the Board are the Director-General of KELA and his or her deputy. The Board's term of office is three years. The current Board's term of office commenced on January 1, 2005. The Board has convened on a monthly basis with the exception of July, and its meetings have dealt with the major issues in regard to KELA's operations.

In accordance with KELA's internal regulations which have been approved by the Trustees, the Director-General is responsible for strategic planning and for the operative management and development of KELA. The Director-General is also responsible for the operations of the regional and local administration and implementation of Board decisions. The Internal Audit also functions under the Director-General. Four Directors are responsible for strategic planning for and operative management and development of the units entrusted to them by the Board.

The Board has defined the division of labour between the Director-General and the Directors. Jorma Huuhtanen, Director-General is in charge of the Administration Department and the Economic Department. The Director of Medical Affairs is subordinate to the Director-General. The Director-General's deputy, Director Matti Puhakka, is in charge of the Human Resources Department, the Information Systems Department, the Computer Centre and Rehabilitation Centre Petrea. Director Helena Pesola is head of the Pension and Income Security Department and the Actuarial and Statistics Department. Director Mikael Forss is in charge of the Health and Income Security Department and the Research Department. Director Asko Apukka is head of the Office Services Department.

The management group comprises the Director-General and Directors, and handles proposals to be submitted to the Board and other important issues within the divisions. The management group has usually convened weekly, with the exception of the holiday season. The fundamental principles of good administration

provided for in Chapter 2 of the Administrative Procedure Act and the general requirements of efficiency and cost-effectiveness for the public sector apply to KELA and its operations.

## Supervision

KELA's operations are supervised by Trustees appointed by Parliament. The Trustees approve the financial statements and release the Board from liability. They submit a report on their operations to Parliament annually. The Trustees have appointed eight auditors to review KELA's accounts, one of whom functions as the supervisory auditor. The supervisory auditor's report is handled by the Trustees, auditors and the Board quarterly.

The Internal Audit functions under the Director-General, and its service regulations are approved by the Board of KELA. The Internal Audit unit forms part of KELA's monitoring system. The Board has appointed an Audit Committee to supervise, monitor and coordinate Internal Audit and to coordinate the review of the accounts. The Chairman of the Board acts as the Chairman of the Audit Committee, other members including the Director-General and his or her deputy, the supervisory auditor and the Director of Internal Audit. The Audit Committee deals with Internal Audit's annual plan and the summary reports of Internal Audit and the supervisory auditor.

## 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 participated in the development of the welfare society. The success of KELA is based on competent and professional staff, its comprehensive service network, clearly-defined service channels, its high level of quality, cost-effective operations and effective information technology.

In its strategic documents, KELA's operations are examined from four perspectives: the client and social impact, 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 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 2005

The Board convened 11 times during the year. An annual Board strategy seminar was also held, at which KELA's strategic focus areas and targets were dealt with. The Board also held two separate advanced 'evening sessions' which dealt with personnel issues.

The Board visited the Pietarsaari and Kokkola offices in the Western Finland insurance region, and they also visited the contact centre which has concentrated on providing telephone services since the beginning of 2006. The contact centre unit providing service in Swedish will start its operations in Pietarsaari. The Board also visited the Espoo insurance district of the Southern Finland insurance region and was provided with information on their operational situation and targets. The Board also convened with the KELA Advisory Committee.

## Key decisions in 2005

The Board has accepted the operational and financial plan for 2006-2009, the KELA scorecard for 2006 and the portfolio of projects for 2006-2009, and signed performance agreements with the Director-General and the Directors for 2006. The operational and financial plan comprises KELA's mission statement, vision, values, strategic base and scorecard. The portfolio of projects comprises the key projects for the development of customer service, human resources, benefits and information technology over the years 2006-2009.

In accordance with the Act on the Social Insurance Institution, the Board elected the KELA Advisory Committee for the period April 1, 2005-March 31, 2008. The Advisory Board is made up of the representatives of the main interest groups associated with KELA's operations. Advisory committees for pension issues and rehabilitation issues were also set up for the period 2005-2007.

The Board approved the target programme to ensure that personnel numbers correspond with workload. The aim is to ensure that the number of staff members corresponds to the workload, the development of productivity, to establish internal labour markets and to use systematic recruitment to ensure that personnel plans live up to the objectives. High-quality customer service will be provided and benefits will be implemented in all cases. The Board also made a decision to extend the trial of a performance-related remuneration scheme in 2006.

A total of six decisions on merging insurance districts were made. There were 61 insurance districts as of January 1, 2006. The Board also decided that a contact centre concentrating on telephone services would start its operations as a unit subordinate to the Eastern Finland insurance region as of January 1, 2006.

The Board awarded the prize in the internal quality competition to the Seinäjoki insurance district and the Eastern Finland insurance district received an honourable mention.

The Board authorized the director in charge of the Information Systems Department to conclude an agreement on the acquisition of an enterprise resource planning system on the basis of the successful tender submitted by Siemens Oy and to make a decision on the acquisition. An office building with 4,500 square metres of gross floor area will be built on the plot owned by KELA in Keltinmäki in Jyväskylä. The project will be completed by the beginning of summer 2007.

The Board decided to award Director-General Pekka Tuomisto with the third gold badge of merit. The Board has approved the ethical guidelines for KELA.

## Funding

Overall KELA expenditure in 2005 came to EUR 10,722 million. This comprises EUR 10,392 million in benefits and EUR 330

million in operating expenses. The total figure increased by EUR 163 million on 2004 (1.5%).

Income and government liquidity guarantee payments to the national pension insurance (NPI) and national health insurance (NHI) funds totalled EUR 10,769 million. This figure increased 1.7% on the previous year by EUR 182 million.

National health contributions paid by the insured accounted for EUR 1,012 million and employers' national pension and national health contributions for EUR 2,403 million of total income. KELA received EUR 49 million in wage earners' unemployment insurance contributions. Insurance contributions made up a total of 32% of overall income. Government contributions accounted for 55% and those from municipalities for 4% of total income. KELA received EUR 1.0 billion in revenues from value added tax, which was 9% of total income.

### Investments

The Board annually approves KELA's investment plan. The targets of its investments are: security, profit, cash convertibility, adequate diversity and spread. Account must also be taken of the nature and purpose of the national pension insurance (NPI) fund, the national health insurance (NHI) fund and the pension liability fund, and the requirements these set for investment activities.

Investment operations of the 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.

2005 was an excellent year for equity investors. The increase in yield was a result of the continuing strong global economic growth, the mainly mild valuation of shares and good performance by companies. Developing markets produced the best yields but they were also good in Japan and Europe. The yield from Finland's stock market fell slightly short of that of the European market. The most successful benefited from the high prices for energy and raw materials. Companies with a combination of mild valuation and better-than-forecast financial performance were also rewarded with an increase in the share price. Companies which actively made use of their large reserves of cash through dividends, repurchases or corporate acquisitions were also rewarded. The companies whose cost structure was negatively affected by, or whose products were less in demand due to the high energy prices were less successful as were the companies who suffered because of rising interest rates.

The pension liability fund's shares were sold to a value of approximately EUR 5.5 million in 2004. The market value was approximately EUR 5 million lower than at the end of 2004. This figure corresponds with the amount of shares sold. The pension liability fund has continued to diversify investments and minimize risks. The market value of the fund's investments rose by 24.6% during the year.

Dividend yields totalled EUR 74 million (EUR 29 million in 2004). Dividend yields include the dividend of almost EUR 40 million paid by Fortum Corporation as Neste Oil Corporation shares. The monthly current asset average was EUR 539 million (EUR 481

million in 2004). The average interest on current assets was 2.14% (2.08% in 2004) and interest yields totalled EUR 13 million (EUR 10 million in 2004).

### Funding national pension insurance

National pension insurance (NPI) expenses totalled EUR 3,005 million, slightly more than in 2004. National pension insurance income totalled EUR 2,934 million.

Of total NPI income, EUR 1,381 million derived from employer contributions, which funded approximately 46% of national pension insurance expenses.

The central government paid EUR 1,135 million in benefit contributions. It financed 29% of NPI expenditure as well as 100% of disability and childcare allowances, survivors' pensions, front-veterans' benefits and housing benefits for pensioners. EUR 400 million from value added tax revenues went into the NPI fund.

In order to protect the solvency throughout the year, the NPI must set a minimum level for its liquid assets. EUR 83 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 in 2005 was EUR 3,533 million, of which rehabilitation costs were just over EUR 285 million. Total expenditure increased by 4.8% on 2004. Income for the year amounted to EUR 2,705 million, and the government liquidity guarantee payment totalled EUR 863 million.

Contributions paid by the insured amounted to EUR 1,012 million and employer contributions to EUR 1,022 million of the total income. EUR 600 million was entered as income in the social insurance fund from value added tax revenue. The government funded EUR 45 million of the minimum daily parenthood allowances. The remaining income for national health insurance was derived from the yield on assets and recovery payments.

### Funding other social security

Other social security benefit payments in 2005 totalled EUR 4,184 million, a slight decrease on the previous year. Of other social security benefit payments, the government funded EUR 3,738 million and municipalities EUR 396 million. EUR 49 million came from wage earners' unemployment insurance contributions.

### Administration expenses

Administration expenses totalled EUR 330.4 million, a decrease of 3.8% on 2004. Administration expenses increased 0.9% compared with the previous year if no account is taken of the value of a transfer of real estate to the pension liability fund in 2004 to cover the employment pension liability.

Wages and salaries totalled EUR 161.4 million, which was an increase of 2.9% on the previous year. Staff-related costs amounted to EUR 50.9 million. The employer contributions amounting to EUR 20.6 million decreased by half and other staff-related costs increased 8.0% on the previous year.

Other administration expenses totalled EUR 67.5 million, an increase of 3.7% on 2004. This includes EUR 33.2 million in IT costs and EUR 4.6 million in depreciation of fixed assets. Income items reducing administration expenses amounted to EUR 18.4 million.

Purchased services, which comprised largely tax costs paid to the tax administration, came to a total of EUR 50.6 million.

### Pension liability fund

KELA's actuarial liability for staff pensions totalled EUR 1,378 million at the end of the year, with expenditure on current pensions accounting for EUR 579 million. The full pension liability increased by EUR 74 million in 2005, because of pay and pension rises and an increase in pension accrual.

Covered pension liability of the total liability rose to EUR 44.4% in 2005. The corresponding coverage was 38.2% for the previous year. The growth of the revaluation fund and the adjustments in depreciation amounted to EUR 52 million, with the full pension liability accounting for 3.8%.

EUR 20.6 million in employer contributions was paid into the pension liability fund. In addition, employee contributions amounted to EUR 8.5 million, EUR 3.4 million of which was used to cover pension liability.

According to the so-called VILMA procedure, the Local Government Pensions Institution and the State Treasury paid out EUR 0.35 million in pensions accrued at KELA, while EUR 0.32 million were paid by KELA. KELA paid EUR 49.3 million in employment-based pensions, an increase of 5.7% on 2004.

### EMPLOYERS' HEALTH INSURANCE PAYMENT CRITERIA

% of wages	2004	2005	2006
<b>National pension insurance</b>			
Private sector <sup>1</sup>			
Class I contributions	1.35	1.366	0.898
Class II contributions	3.55	3.566	3.098
Class III contributions	4.45	4.45	4.466
<b>Public sector</b>			
Central government and Åland	3.95	3.966	1.948
Municipalities and the Church	2.40	2.416	1.948
<b>Health insurance</b>			
Private sector	1.614	1.60	2.06
Public sector			
Central government and Åland	2.864	2.85	2.06
Municipalities and the Church	1.614	1.60	2.06

<sup>1</sup> 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

% of earnings subject to municipal tax	2004	2005	2006
Health insurance payment <sup>1</sup>	1.5	1.5	
<b>Wage-earner</b>			
Medical expenses <sup>1</sup>			1.33
Daily allowance <sup>2</sup>			0.77
<b>Entrepreneurs insured by Farmers' Pension Act</b>			
Medical expenses <sup>1</sup>			1.33
Daily allowance <sup>2</sup>			0.77
<b>Entrepreneurs insured by Entrepreneurs' Pension Act</b>			
Medical expenses <sup>1</sup>			1.33
Daily allowance <sup>2</sup>			1.02
<b>Pensions and those receiving benefits</b>			
Medical expenses <sup>1</sup>			1.50

<sup>1</sup> Percentage of earnings taxed with municipal taxation, percentage of net earnings for entrepreneurs.

<sup>2</sup> Percentage of taxable salary and entrepreneurs' earned income.

### Outlook for the future The client and social impact

KELA's strengths include a comprehensive service network, a skilled and committed staff, reliable systems for processing claims, efficient management, planning and quality systems, its independent status and public trust.

KELA's prospects are based on the fact that it operates in line with the principle "KELA for all". New technology will be adopted, online services increased, services improved by means of an even distribution of the workload and direct reimbursement systems, and the service network developed in cooperation with other actors. At the same time, KELA will make sure that cooperation with interest groups and networking are in good order. KELA also participates in the public debate associated with its operations and in the development of social security legislation.

Risks to future success can be considered to be insufficient skills, risk of being left behind other operators in the development of e-transactions, being unsuccessful in the development of new services, the strict timetable for amendments in legislation, recruiting the right type of people, slow reaction to changes in the operating environment, long-term malfunctions in information technology, information systems and information networks, and malfunctions in payment transactions. KELA's principal functional risks can be avoided by sufficiently long-term planning and being prepared for risks. The processes of risk management and internal supervision have been improved and principles for risk management approved. Risk management measures have been dealt with by each unit and they are now part of the performance agreements.

KELA has a total of 263 full-service offices, as well as sub-offices and an increasing number of shared-service agreements. As a result of KELA's entire service production adopting the system of online document management, the workload will be distributed

## Processes

among insurance districts and regions, which will create coherent processing times for benefits. In this way, the work to reduce the processing times in busy residential centres will continue and efficiency and impartiality of services will be enhanced. At the same time, a service network extending throughout the country can be preserved. In order for the services to be maintained, it is essential for cooperation with other service providers in public administration to be developed.

The telephone service will be separated into its own service channel by establishing contact centre units concentrating on telephone guidance for customers and other related tasks. Online services will be expanded so that all benefit claims can be submitted electronically. The direct reimbursement system will be adopted on a full scale. KELA has declared that it is now able to participate in the implementation of electronic archives databases for social welfare and health and electronic databases for prescriptions.

KELA provides extensive information on its benefits and services. Customer service and the standard of internal operations will be monitored on a regular basis by means of polls and surveys. KELA will be an active contributor to the development of social security by issuing legislative initiatives established on prognoses, assessments and research findings.

Extensive customer service training in which every KELA staff member will take part was launched in 2005. The aim is to improve customer service and ensure KELA provides a coherent service. Comprehensive guidelines for service provision to direct the operations of KELA and its personnel will be created from the material produced at the seminars.

Matters are handled smoothly by means of a variety of service channels, and with customer-orientation, swiftness, coherence 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, finances and productivity and the quality of decisions and the figures related to processing times. By predicting risks we can ensure the smooth flow of processes and the achievement of targets.

## Renewal of personnel and the working community

Special attention is paid to management skills and supportive, interactive leadership. Well-being at work is dependent on immediate supervisors and management. We develop the competence of our personnel and look after their work ability and well-being, and improve the content of work and functionality of the work community. We emphasize the importance of recruitment, induction, training, professional development and reward systems. KELA strives to maintain a first-rate work force, rewarding it in more ways than salary perks alone.

## Economics

In 2006, KELA's total income and expenditure are expected to reach EUR 11.0 billion, which is an increase of around 2.5%. Pension insurance benefits make up EUR 2.9 billion, health insurance and rehabilitation benefits make up just under EUR 3.6 billion and other social security benefits EUR 4.2 billion of the expenditure.

The reform of the funding for the health insurance scheme that had been under preparation for a long time went through at the beginning of 2006. Health insurance funding will be divided into earnings-related insurance and medical insurance. In practice the reform means that the insured will now have to pay medical insurance contributions instead of the health insurance contributions. In addition to this, so-called daily allowance payments will be taken from employees' salaries and entrepreneurs' earnings.

The purpose of the reform is to make the funding of health insurance benefits clearer and strengthen the insurance principle. The aim is to safeguard the adequacy of the funding of benefits that are granted for illnesses. It is also hoped that the reform will reinforce the insurance principle by creating a closer link between payments and benefits.

When it approved the government proposal, Parliament made the condition that, "the upward pressure on payments due after 2006 will be closely monitored and on the basis of this monitoring, the needs for change of the funding liability will be assessed when confirming future payments".