



Examining alternatives to Finnish social security system

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Background in Finland

- Parliamentary committee to propose ways to reform social security (2020-2027)
- All parties acknowledge the need to reform social security
 - Considered complex
 - Outdated (weak consideration of new types of employment and families)
 - Not well synchronized with services
- A working group (2022-2023) to assess whether alternative ways of organizing social security — **basic income, social account or a unified basic security benefit**— could solve observed problems

Task of the Working Group

1. To create exemplary models and produce impact assessments (distributional effects, work incentives).
2. To compare the models with the current system regarding basic principles, basic rights basis, financing

The alternatives

- The purpose of the simulated alternatives is to exemplify their idea. The exact policy formulations are made by the working group and not politically chosen.
- All alternatives were set to be cost-neutral in a static setting.
- Evaluations rely on static microsimulation.
- Potential behavioral effects were discussed based on simulated changes in incentives and prior causal evidence

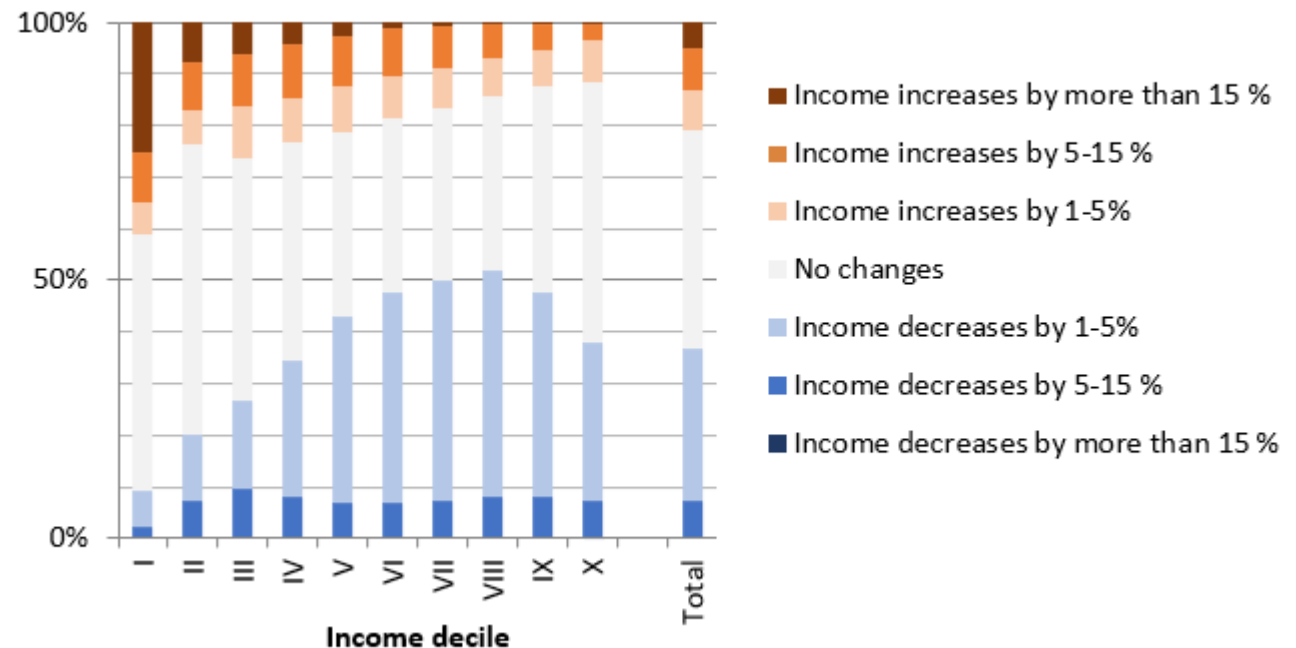
Alternative models

Basic income that replaces part of the current benefits

- Basic income for all 18–64-year-olds who have not retired (level of current minimum benefits 742 e/month, taxable)
- Financed by abolishing current benefits and increasing taxes:
 - Abolition of risk-based minimum benefits, a part of social insurance benefits, study grants, cash-for-care benefit
 - Deductions from earnings and work income are eliminated, a new regressive basic income tax on wage, self-employment and capital income introduced
- Current housing benefits and general social assistance are left alongside the basic income.

Basic income model would reduce income inequality and poverty rates

- Low-income households would benefit (students above all)
- High-income households would pay more taxes from employment and capital
- Less complexity
- Reduced employment?

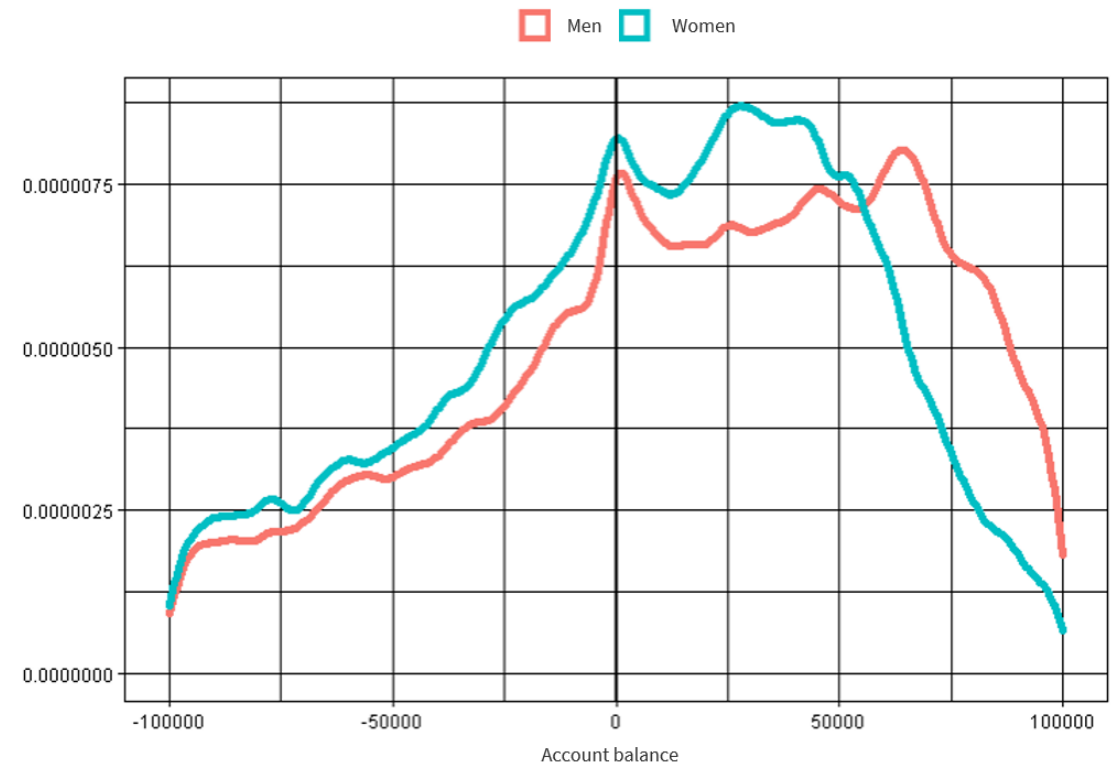


What social account?

- Mandatory social contributions are directed to a personal account
- The account is used to finance one's **unemployment benefits and study grants** (the account balance can also be negative without consequences)
- The goal is to increase individual incentives to work as the potential surplus can be collected when retired

Evaluation of the social account model requires simulation of life cycles

- No data of full life cycles (from 18- to 64-year-old)
- Synthetic life cycles are calculated from panel data spanning 20 years
- In the cost-neutral static scenario, the contribution rate is 4,7%



Social account: A summary

- A shift from collective insurance to individual responsibility
- Potentially increases employment but behavioral effects are unsure because of lack of prior evidence
- Does not reduce complexity

Unified basic security benefit

- Currently multiple risk-based minimum benefits with different formulas
- Different levels, some have child increases, income disregards, means-testing
- Unification: child increases to all, no income disregards, no means-testing
- Tightened taxation to finance the reform

Aftermath

- Committee recommended to proceed with unified basic security benefit
- New right-wing government took it in their program in 2023, however, with different content than the working group:
 - Abolition of child increases (from unemployment benefits)
 - Abolition of income disregards (from unemployment benefits)
 - Abolition of activation increases (from unemployment benefits)
- The committee's task is now to "monitor" the implementation

The role of microsimulation

- The microsimulation was the key part of the assessment
- Emphasizing the insecurity: the bigger the reform, the more insecure assessment of effects
 - Not much evidence on the potential impacts of basic income, such as abolishing "bureaucracy trap"
 - Could the policy changes in the obligations and sanctions be simulated?
 - Not exact employment effects calculated, only changes in work incentives

References

- **Working group for examining alternative ways of organising social security (2023).** Study on alternative ways of organising social security. Publications of the Social Security Committee 2023:1.(the abstract only in English)
https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164531/Sosiaaliturvakomitea_2023_1.pdf