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**Research Update:**

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

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## Research Update:

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

## Overview

- We consider that Tyottomyysvakuutusrahasto (TVR) has an almost certain likelihood of receiving extraordinary support from Finland's government, if needed, and consequently equalize our ratings on TVR with those on Finland.
- We assess the link between TVR and Finland as integral and TVR's public policy role as critical, although the government does not provide a general guarantee for all 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. 20, 2017, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Finland-based Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund (TVR). The outlook is stable.

## Rationale

We equalize our ratings on Finland's unemployment benefit agency 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 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 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 also 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 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.

On the back of improving economic conditions in Finland and decreasing unemployment, in 2016, TVR's performance took a turn for the better, after a weak 2014 and 2015. Profits equaled €220 million (compared with a loss of €677 million in 2015), allowing to narrow the negative net asset position down to €466 million. The first half of 2017 saw a continuation of the stronger developments, with profits adding up to €233 million, and therefore we expect the net asset position will reach balance sooner than we previously anticipated, potentially by year-end 2017.

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. At the end of 2016, TVR's investments and other financial assets amounted to €704 million (€604 million in 2015). In addition, TVR has the Finnish FSA's permission to borrow to secure its liquidity. TVR covers its funding needs primarily through a €400 million state-guaranteed revolving credit facility issued in April 2017. We understand the previous revolving credit facility of €700 million was cancelled at the time the new facility was issued. TVR also issued €900 million in bonds in 2015, which mature by 2019. 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 will be equalized between employees and employers, both contributing 1.9% from 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 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, 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 is currently planned, with implementation 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.

## **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 And Research**

### **Related Criteria**

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April

07, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### Related Research

- Research Update: Finland Ratings Affirmed At 'AA+/A-1+'; Outlook Stable - September 15, 2017

### Ratings List

	Rating	
	To	From
Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Stable/A-1+
Senior Unsecured		
Local Currency	AA+	AA+

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at [www.standardandpoors.com](http://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.

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