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Research Update:

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

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Overview

- We consider Finnish unemployment benefit agency Työttömyysvakuutusrahasto (TVR) to be a government-related entity.
- In our view, there is an almost certain likelihood that the Finnish government would provide extraordinary financial support to TVR, if necessary.
- We are assigning our 'AA+/A-1+' issuer credit ratings to TVR.
- The stable outlook on TVR reflects that on Finland.

Rating Action

On May 21, 2015, Standard & Poor's Ratings Services assigned its 'AA+' long-term and 'A-1+' short-term issuer credit ratings to Finland-based Työttömyysvakuutusrahasto, The Unemployment Insurance Fund (TVR). The outlook is stable.

Rationale

We consider TVR to be a government-related entity (GRE). Therefore, we equalize our ratings on TVR, Finland's unemployment benefit agency, with the ratings on its related government, the Republic of Finland (AA+/Stable/A-1+). This reflects our view that there is an "almost certain" likelihood that the Finnish government would provide timely and sufficient extraordinary support to TVR in the event of financial distress.

In accordance with our criteria for rating GREs, we base our assessment on TVR's:

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

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

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

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

In addition, TVR's critical role for the government is underlined by its execution of a core responsibility for the central government, which is ultimately responsible for the unemployment schemes and determines TVR's functions and funding sources. As the cornerstone of the Finnish unemployment scheme, TVR already benefits from strong ongoing government support. This comes primarily through its unique status within the Finnish welfare system and its legal monopoly in the area of compulsory earnings-related unemployment benefits, which allows it to propose insurance premiums to the Ministry of Social Affairs and Health. Also, TVR is authorized to maintain financial buffers, has the authority to take external loans, and benefits from government guarantees on certain debt obligations.

We believe that if TVR needed extraordinary financial assistance, the government would take preemptive actions and provide adequate and timely support. On a few previous occasions, the Finnish government, without any preceding request from TVR, granted extra funds to TVR's budget, via the Ministry of Finance, to manage higher benefit payments during periods of very high unemployment. In doing so, it thereby relieved TVR from having to propose hefty premium increases.

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

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

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

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

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

Outlook

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

Related Criteria And Research

Related Criteria

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

Related Research

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

Ratings List

New Rating

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

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