

Chapter 3. Towards integrated services and integrated benefits for young people in Finland

This chapter looks at the services and social benefits available in Finland to support young people who need help in their transition to employment and adulthood after having left the education system. It discusses the impact the unusually generous Finnish benefit system has for those people and how services and infrastructures work around incentives and disincentives created by the system. The chapter pays particular attention to integrated service approaches that ensure disadvantaged young people receive the right type of support when they need it. It also discusses possible consequences and opportunities of a comprehensive health and social services reform, which was planned to be introduced simultaneously with a regional government reform that would divide Finland into 18 counties.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The Finnish education system is among the top in the OECD area with regard to the quality of teaching and the quality of student outcomes. However, also the Finnish system cannot prevent a significant share of the youth population – some 10-15% of each cohort – from leaving school with poor or low education and having very poor chances in the job market, thereby contributing to further discouragement and a downward cycle. All OECD countries, including Finland, have services and social benefits in place to help those young people in getting their feet on the ground and making a successful transition into employment, possibly but not necessarily including education and training later in life.

Finland is in a somewhat particular position insofar as it probably has the most generous benefit system for young people of all OECD countries with almost four in five young people aged 16-29 years receiving *some* benefit and almost one in three of them receiving an out-of-work benefit (see section 3.2 for more details). This setup means services and supports not only have to help those young people making a plan for their life, direct them to the right place or service provider, and compensate the disadvantages they face, but in doing so they also have to overcome considerable disincentives to action and activation that these benefits create. This extra challenge does not contradict the fact that those young people who receive benefits tend to face a considerable low-income risk, also in Finland.

This chapter discusses the benefit system and its consequences for young people as well as the services in place to support them. It concludes that policy makers in Finland have a big task ahead. Persistent problems for disadvantaged young people demand comprehensive and structural solutions, including streamlining of available benefits and services and shifts in the way benefits and services operate. The chapter also infers that the planned but currently halted health and social services reform would offer opportunities to improve the situation for young people if it would at the same time successfully integrate effective structures and services already in place.

3.1. A comprehensive but fragmented income support system

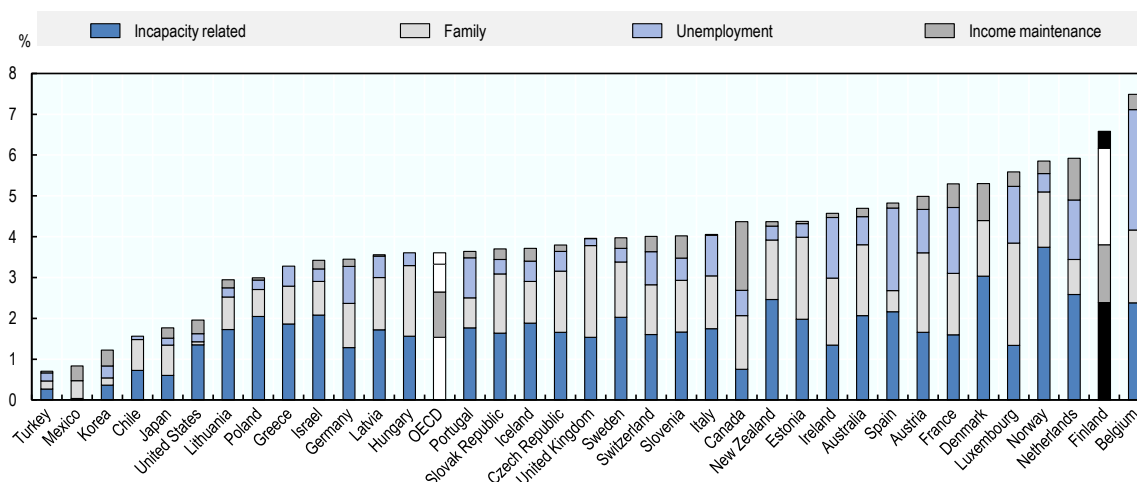
Cash benefits play a key role in guaranteeing a minimum standard of living and a safety net for people with no steady income from work. In Finland, public expenditure on social benefits is one of the highest in the OECD. At 6.6% of GDP in 2015, Finland spends much more on social income support than OECD countries on average (3.6%), most of which going to unemployment and disability benefits (Figure 3.1). However, while Finland has a very comprehensive income support system, the system is highly fragmented and the various different benefit payments are not well integrated or coordinated.

All Finnish residents have a legal right for basic income support that guarantees a minimum standard of living. For unemployed jobseekers, two types of payments exist. Those with sufficient work history are eligible for a basic unemployment allowance paid through the Finnish Social Insurance Institution (KELA) and a voluntary earnings-related allowance paid through an unemployment fund. Unemployed persons who do not meet the work requirements, or have exhausted the maximum period of unemployment allowance, are eligible for a means-tested labour market subsidy, the level of which is identical to the level of the basic unemployment allowance. Individuals whose work capacity is limited are eligible for sickness and rehabilitation allowances in case of time-limited problems or a disability benefit in case of long-term and permanent work

incapacity. A means-tested social assistance payment is also available as a last resort for low-income individuals with insufficient resources to cover their basic daily expenses and needs.

Figure 3.1. Finland's public social expenditure is among the highest in the OECD

Public social expenditure on cash income support to the working-age population as a percentage of GDP, by broad policy area, 2015 or latest available year



Note: Data are for 2015 except for Poland (2012).

Source: OECD Social Expenditure Database (SOCX), <http://www.oecd.org/social/expenditure.htm>.

3.1.1. Unemployment insurance for young people with work history

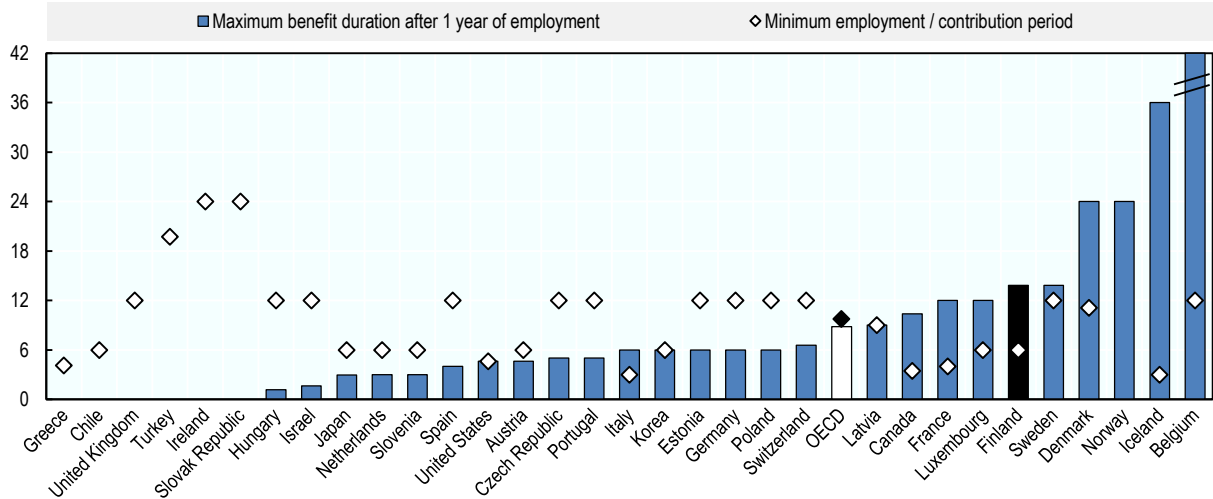
From age 17 onwards, Finnish youth are entitled to a basic unemployment allowance, provided they have been employed for a minimum of 26 weeks and completed at least 18 work hours per week during the past 28 months preceding unemployment.¹ Eligible claimants must register as unemployed jobseekers, be apt for work, look for full-time employment and accept any employment or training opportunities offered to them.

At 14 months for a 20-year-old jobseeker with one year of employment (and 18.5 months after three years of employment), the maximum benefit payment duration for young jobseekers in Finland is relatively long, compared to the OECD average of eight months (Figure 3.2). However, it is shorter than in the other Nordic countries, except Sweden: young jobseekers in Norway and Denmark are entitled to no less than 24 months of unemployment benefits and in Iceland even 36 months.

Unemployment benefit payments are less generous in Finland than in many other OECD countries. The net replacement rate (i.e. the proportion of previous net income replaced through benefits) is 58% for a jobseeker with annual earnings of 67% of the average wage (Figure 3.3). Taking into account the additional, means-tested housing allowance that unemployed jobseekers with previous earnings at that level would qualify for, lifts the net replacement rate (NRR) to 67% or slightly above the OECD average but it remains lower than in many countries in the north and south of Europe and in East Asia.²

Figure 3.2. The minimum required contribution period for unemployment benefits is rather short in Finland while the maximum payment duration is relatively long

Minimum contribution or employment period and maximum duration of unemployment insurance benefits (both measured in months) for a 20-year-old jobseeker after one year of employment, 2016

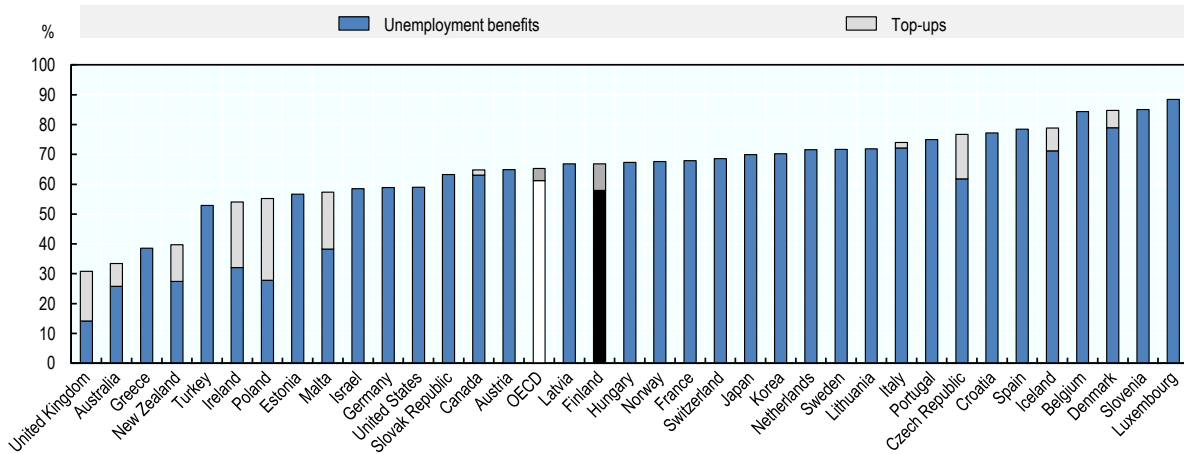


Note: In Belgium, Ireland, the Slovak Republic and Turkey, 20-year-olds with a one-year contribution record do not qualify for unemployment insurance benefits. In Greece, social insurance contributions in each of the previous two years are required. No maximum benefit duration applies in Chile. Results for the United States are for the State of Michigan. No results are available for Mexico. There are no unemployment insurance schemes in Australia and New Zealand. The OECD average refers to countries where such a limit exists.

Source: OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

Figure 3.3. Unemployment benefit levels in Finland are similar to the OECD average

Net replacement rates in the 2nd month of unemployment for a single 20-year-old with previous earnings at 67% of the average wage, as a percentage of previous net income, 2018



Note: Net replacement rate of a single, childless person in continuous employment for 24 months. The benefit replacement rate is net of applicable income taxes and social security contributions. Top-ups may consist of social assistance and housing benefits, with housing costs assumed to equal 20% of the average wage. No results available for Mexico. Based on projected wages and preliminary information on tax rules.

Source: Own calculations using the OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

Even if payment rates are modest, Finnish youth with sufficient work history and, thus, entitled to unemployment allowance are relatively better off in case of longer spells of unemployment. Whereas in many OECD countries net replacement rates drastically decline with the duration of unemployment, in Finland it remains at its initial level throughout the 14/18.5 months, provided all activation requirements are fulfilled (see also section 3.5.1). The incidence of long-term unemployment among Finnish youth, however, is among the lowest in the OECD: in 2016, only 8.8% of the 15-24-year-old unemployed were out of work for more than one year (OECD, 2018^[1]).

3.1.2. Minimum-income benefits for youth with low incomes

Separate income support is available for young individuals with low incomes who do not fulfil the work requirements to qualify for unemployment or the health requirements to qualify for a sickness or disability benefit (see below). Jobseekers whose employment history is too short or who enter the labour market for the first time, qualify for a labour market subsidy. This subsidy is means-tested and takes into account claimants' earnings from employment and other social benefits as well as their parents' income if the jobseeker still lives with them. In 2018, the maximum amount was set at EUR 697 per month, which corresponds to around 28% of the net average wage.

Just like for other unemployment benefits discussed above, entitlements to labour market subsidies are tied to participation in active labour market measures. To receive full benefits, jobseekers must have been employed for a minimum of 18 hours (or earned a minimum of EUR 241 if self-employed) or taken part in at least five days of employment-promoting training and services provided by the Employment Office within the last 65-day period. Age also matters: 16-17-year-olds may receive the labour market subsidy only during participation in employment-promoting services. 18-24-year-olds must have applied to an educational programme and not have turned down any offer for employment or education in order to qualify for the subsidy. There is also a waiting period of five months for those without a vocational qualification (Hiilamo et al., 2017^[2]).

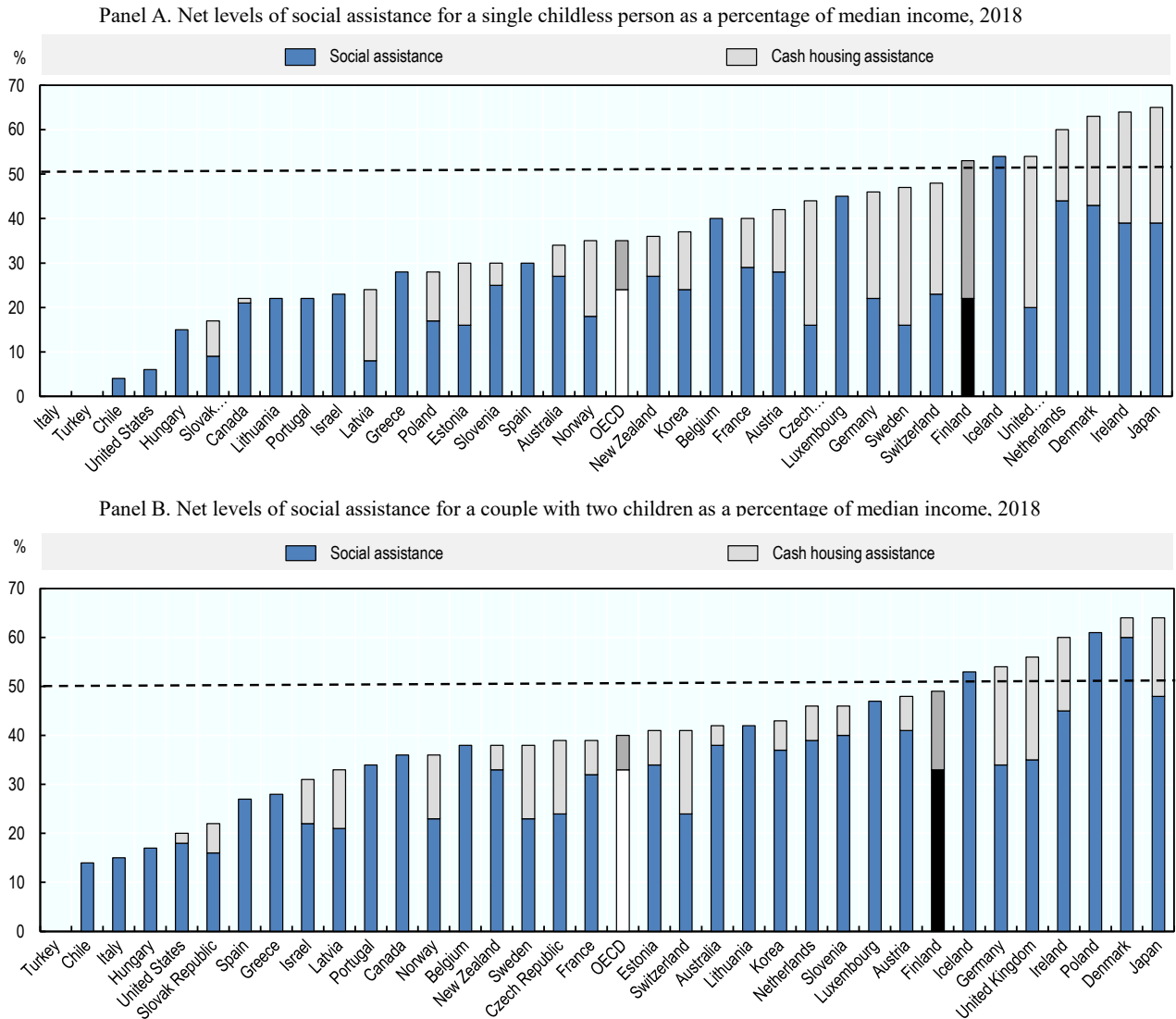
Youth and households with low incomes and high costs of housing are also entitled to a separate housing allowance. The allowance applies for both rented and owner-occupied homes and depends on a number of factors, including the municipality of residence, total household income and the number of adults and children living in the household.

Low-income individuals and families may also receive social assistance in case their earnings are insufficient to cover basic needs of everyday life. Eligibility for this last-resort type of income support depends on the claimants' household income (including other social benefits), their assets and the amount required to cover basic expenses. Social assistance consists of basic social assistance (administered by KELA) and supplementary and preventive social assistance (administered by and at the discretion of municipal authorities). The former covers a basic amount of EUR 491 per month in 2018 for a person living alone and other basic expenses (e.g. housing costs and medical expenses) up to a reasonable amount. The latter two cover specific expenses not covered by basic social assistance such as expenses related to the specific needs and circumstances of the family. Parents' earnings have an effect on the eligibility for social assistance for 16-17 year olds, but not for those aged 18 years and over – even if they still live with their parents.

Minimum-income benefits are generous in Finland compared to other countries. For a single childless person, for example, the total benefit corresponds to 54% of the median equivalised household income, just above the poverty line of 50% and the third-highest

level in the OECD (Figure 3.4, Panel A). Couples with one child fare slightly worse in Finland, but the payment of 50% of the median income remains far above the level paid in its Nordic neighbours as well as the OECD average of 30% (Figure 3.4, Panel B).

Figure 3.4. Minimum-income benefits in Finland lift people just above the poverty line



Note: The dotted line indicates the poverty threshold of 50% of the median equivalised household income. Income levels account for all cash benefit entitlements of a family with no other income source and no entitlements to primary benefits such as unemployment insurance. They are net of income taxes and social contributions. "Cash housing assistance" represents cash benefits for a household in privately rented accommodation with rent plus other charges amounting to 20% of average gross full-time wages. Calculations for families with children assume that the children are four and six years old and consider neither childcare costs nor benefits. Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a "typical" case (e.g. Michigan in the United States, the capital in some other countries). US results include Food Stamps. The 2018 values are based on projected wages and preliminary information on tax rules. The latest year is 2016 for Chile and 2017 for Canada, Korea and Turkey.

Source: Own calculations using the OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

3.1.3. *Income support for youth with reduced work capacity*

Youth with reduced work capacity due to illness, injury or disability are eligible for sickness and/or rehabilitation allowance or a rehabilitation subsidy or a disability benefit³ and possibly a separate disability and/or care allowance. Sickness allowance compensates for loss of income due to short-term incapacity for work (less than one full year). In cases of prolonged illness, sickness allowance can be combined with, and followed by, a partial sickness allowance (where an individual returns to work on a part-time basis following a medical leave of absence); or a rehabilitation allowance or subsidy, along with rehabilitation services, rehabilitative psychotherapy (reimbursed by KELA), or vocational services. The aim of these payments is to enhance and support the individual's capacity to return to work. Rehabilitation subsidies are a special form of time-limited disability benefit. In cases of permanent or long-term incapacity to work after rehabilitation or medical leave, individuals are entitled to a regular disability benefit.

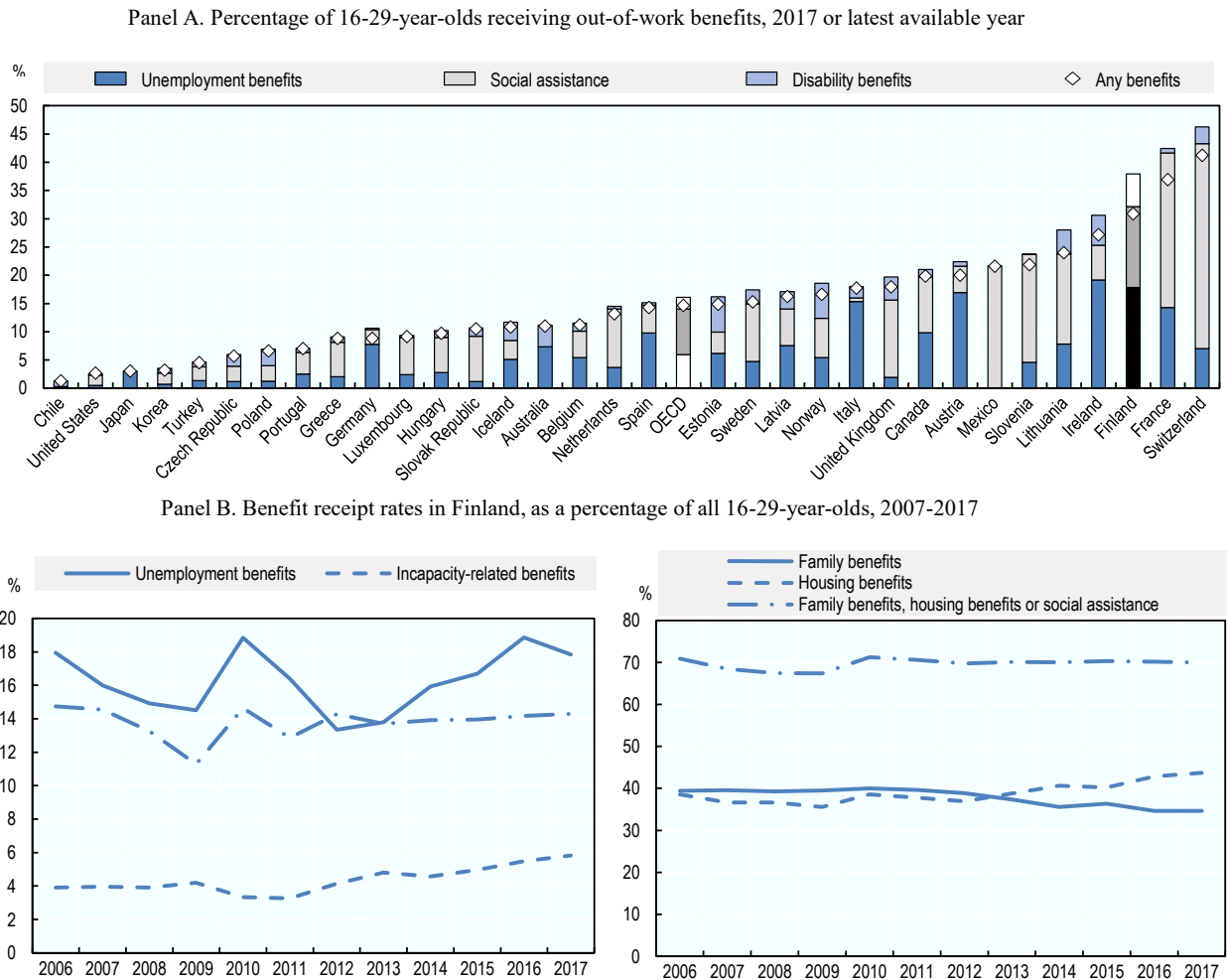
16-19-year-old youth whose capacity to study, work, or choose an educational programme has considerably weakened due to illness or disability are eligible for a youth rehabilitation allowance (established in 1999). Youth rehabilitation involves an individual education and employment plan composed in the recipient's municipality of residence, and supports youth's education or participation in workshop activities, work trials or job coaching (Hiilamo et al., 2017^[2]). Youth aged 20 and over who are incapable of work due to illness, injury or disability are entitled to a rehabilitation allowance during rehabilitation, a fixed-term rehabilitation subsidy, or a disability benefit in case of long-term, permanent disability, just like other working-age adults. The minimum amount of any of these payments in 2019 is EUR 784 per month.

3.2. **Benefit receipt among youth is high and benefit traps are significant**

Eligibility rules say little about the actual coverage of income-support programmes. A large share of youth in Finland, in particular those who are NEETs, receive benefits, which can often be a major barrier to seeking education and employment, as people are reluctant to lose their benefit entitlement, which would usually happen when they start working.

Finland has the third-highest rate of all OECD countries of the share of young people, aged 16-29 years, receiving out-of-work benefits. In 2017, 30.9% of Finnish youth received some type of out-of-work benefit, a share much higher than in other Nordic countries and twice the OECD average of 14.7%. The shares of Finnish youth on either unemployment (17.8%), social assistance (14.3%) or incapacity-related benefits (5.8%) are all relatively high (Figure 3.5, Panel A). The high rates may be due to a number of reasons: Finnish youth leaving parental home earlier than elsewhere; difficulties in transitioning to the preferred upper-secondary or tertiary education programme (see Chapter 2); or benefit traps that discourage individuals to seek employment or education and move out of benefits.

High rates of benefit receipt in Finland are not a new phenomenon. The proportion of young Finns on out-of-work benefits was already high ten years ago, when the benefit system was largely the same as it is today (Figure 3.5, Panel B). The business cycle has a strong effect on the unemployment benefit caseload and some effect on other benefits. The global financial crisis in 2008/09 led to a strong increase on the share of youth receiving unemployment benefits (Hiilamo et al., 2017^[2]). While it rapidly fell back to its pre-crisis level until 2011, it has since continued to increase again (see also Chapter 1).

Figure 3.5. Receipt of unemployment and social assistance benefits are both high in Finland

Note: Benefit receipt rates give the number of young people who report having received a positive amount of benefits (either individually in the case of unemployment and incapacity-related benefits, or who live in a household that received family benefits, housing benefit or social assistance) during the past year as a share of all 16-29 year-olds. For Panel A: Data on Canada refer to 2011, for Japan to 2012, for Korea to 2014, for Australia, Iceland and Turkey to 2015 and for Ireland, Mexico, Norway and the United States to 2016.

Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN), and the US Current Population Survey (CPS).

The share of young disability benefit recipients has increased continuously, from 3.9% in 2006 to 5.4% in 2016. This is a considerable trend increase – a 72% increase over a period of one decade – and quite alarming, for several reasons. First, disability benefit is a permanent lifetime payment in most cases. Second, this increase is attributable to mental disorders which account for the vast majority of disability benefit claims among youth in Finland (Kokkonen and Koskenvuo, 2015^[3]; Koskenvuo, 2018^[4]); Third, the overall share of disability benefit claims in the working-age populations has decreased since the 2000s (Rantala et al., 2017^[5]).

This trend is not unique to Finland. The share of disability benefit recipients among young people has increased in several OECD countries, including Denmark, the

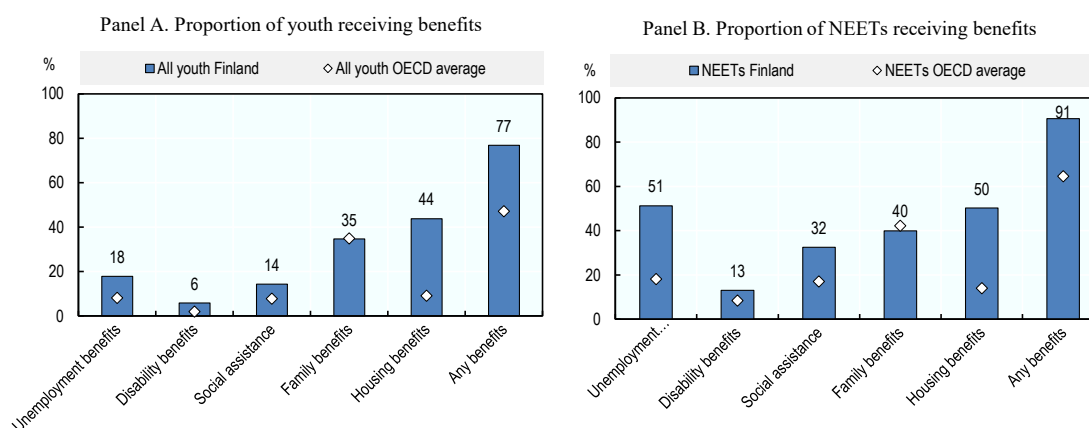
Netherlands, Norway and Switzerland (OECD, 2015^[6]). The causes of such rise, however, are not easily traceable. On the one hand, this increase may reflect better access to health and social services for the youth population or the system's improved ability to identify their problems and needs early on. On the other hand, the increasing rates of youth's disability benefit receipt due to mental disorders may reflect increasing pressure and changing demands in education and employment for young people and resulting increases in the prevalence of mental ill health (Talouselämä, 2017^[7]; OECD, 2018^[8]). Finally, this trend could also reflect better awareness of mental health conditions and a tendency of the main institutions to underestimate the work capacity of young people with such conditions (OECD, 2015^[6]).

3.2.1. Does the Finnish benefit system target vulnerable youth?

In assessing the efficiency and adequacy of the Finnish benefit system for young people, various questions arise. A first question is whether the system reaches all those who need help and avoids paying benefits to those who would not need them. The high overall benefit coverage rates suggest that the system is rather more likely to err on the side of generosity in access even though some youth might be more difficult to reach.

With the exception of family benefits, Finnish youth are far more likely to receive benefits than youth in other OECD countries (Figure 3.6, Panel A). The overall benefit receipt rate is more than one and a half times higher for 16-29-year-old youth in Finland than the average across OECD countries. The picture is similar for Finnish NEETs, the youth population likely to be in greater need: in Finland, 91% of all NEETs received at least some type of benefit in 2017, compared to 65% of NEETs in the OECD on average (Figure 3.6, Panel B).

Figure 3.6. Finnish NEETs are well covered by benefits compared with other countries



Note: Number of young people who report having received a positive amount of benefits during the past year (either individually in the case of unemployment and disability benefits, or because they live in a household that received family benefit, housing benefit or social assistance) as a share of all 16-29 year-olds or the NEET population in that age group. Data for Finland is for 2017. The OECD average is based on the latest available year for each country.

Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EUSILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN), , the Korean Labor and Income Panel (KLIPS) and the US Current Population Survey (CPS).

High shares of recipients of family and housing benefits are driving Finland's overall youth benefit receipt rate upwards; for instance, close to one in two young people in Finland live in a household that receives housing benefit, compared to one in ten on average across the OECD. The high share of Finnish NEETs on benefits, on the other hand, is largely a result of the high share of them in receipt of unemployment and social assistance benefits, both compared to Finnish youth overall and NEETs in other OECD countries. Over 50% of all NEETs in Finland receive unemployment benefit compared to 18% among Finnish youth overall and a similar share of just under 20% among NEETs across the OECD. The difference in benefit receipt rates between NEETs and youth overall is larger in Finland than on average across the OECD not only for unemployment but also for social assistance payments. This finding suggests Finland's unemployment and social assistance benefits target well those young people who are most vulnerable and struggling to find employment. Disability benefit receipt is also more than twice as high among NEETs.

3.2.2. Does the Finnish system create benefit traps?

The various income support schemes support Finnish youth well, but the generosity and the fragmented nature of the different benefits, as well as the bureaucracy involved in navigating them, may create benefit traps that stop individuals from seeking education or employment (OECD, 2018^[9]). This negative effect risks reinforcing benefit dependency and locking individuals into long-term disadvantage and inactivity (Prime Minister's Office, 2018). Speaking from the point of view of youth, this would imply locking young people in a NEET status or even generating a larger number of NEETs in the first place.

Government measures taken since the late 1990s have been somewhat effective in reducing benefit traps and encouraging job search and employment (Viitamäki, 2015^[10]). According to Honkanen et al. (2007^[11]), the number of households "trapped" in unemployment decreased by approximately 17% from 1995 to 2004. Yet, the number of households faced with unemployment traps remains considerable. Some studies estimated their proportion to be as high as 15% of the total working-age population (Hakola-Uusitalo et al., 2007^[12]) and even one-third of all single-parent households (Kärkkäinen, 2011^[13]).

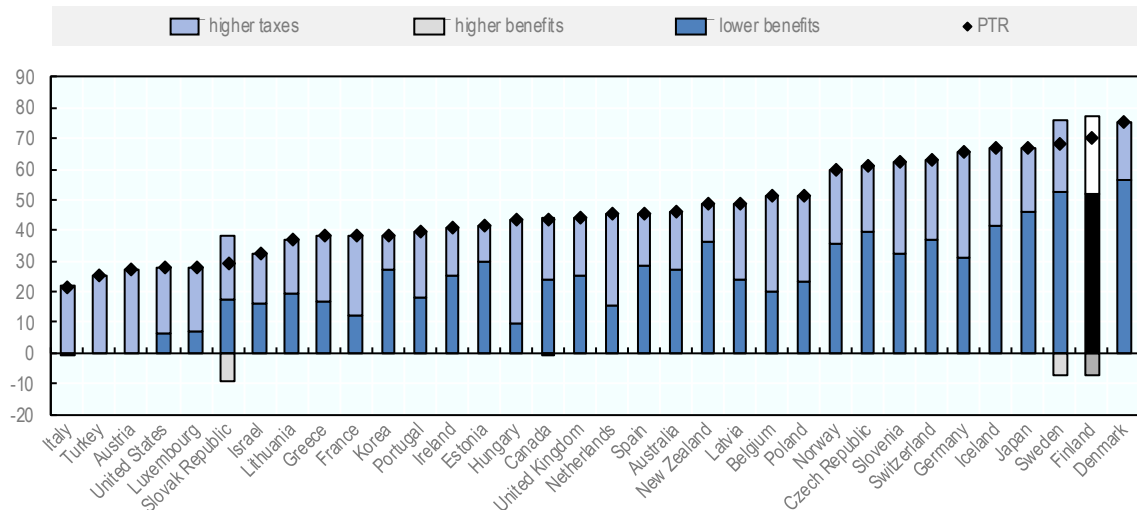
Finland's low overall employment rate in comparison with other Nordic countries is partly attributable to the weak work incentives caused by the interaction of generous social benefits and high taxes on income (OECD, 2018^[9]). Indeed, Finland has one of the highest participation tax rates (PTR) – i.e. the proportion of earnings lost to higher taxes or lower benefit entitlements when an individual moves into work – for youth without any work experience in the OECD (Figure 3.7). At 70%, Finland's PTR was the second highest among all OECD countries in 2018. Working does not necessarily pay and incentives to move off benefits remain relatively weak for young Finns.

Benefit traps are a particular concern for young people with low qualifications and limited work experience who are unlikely to earn high salaries. For example, the current benefit system can discourage youth from pursuing upper-secondary education, given that the monthly amount of student allowance is lower than that of social assistance. For a young person living independently, the difference between these two benefits is considerable: in 2018, a student in secondary education receives EUR 250 per month compared with EUR 491 for youth receiving social assistance.⁴ This difference might be larger in reality because, unlike social assistance, student allowances are taxable income.

However, students can also access a student loan (EUR 650 per month for students older than 18 years) that complements the student allowance (Hiilamo et al., 2017^[2]).

Figure 3.7. High taxes and generous benefits pose a considerable challenge for re-activating youth in Finland

Participation tax rates for a young person who has never worked when moving from inactivity to employment at 67% of the average wage, 2018



Note: Participation tax rates (PTR) measure the fraction of any additional earnings that is lost to either higher taxes or lower benefits when individuals take up a new job. They measure the extent to which taxes and benefits reduce the financial gain from moving into work. Estimates for Finland include earned-income allowance and earned-income tax credit, which are in-work benefits that are automatically available for all workers; they lower the PTR for this group (youth moving into low-paid employment) by just under ten percentage points.

Source: Author's own calculations using standard outputs from the OECD tax-benefit web calculator, <http://www.oecd.org/els/soc/benefits-and-wages/tax-benefit-web-calculator>.

Youth receiving unemployment benefits face greater disincentives to pursue education than those on social assistance. The difference between unemployment benefits and the student allowance is even steeper: the maximum amount of the labour market subsidy is EUR 697 per month for youth without sufficient work history. Eligibility criteria for social assistance and labour market subsidy may also discourage youth from (re-)educating themselves, as they only allow completing studies *other* than those leading to a degree. Moreover, youth without vocational qualification may have an incentive to begin their studies only when they turn age 25 rather than studying earlier. This is because they are entitled to a labour market subsidy (which is much more generous than a student allowance) for a maximum period of 24 months for studies leading to a degree.

The relative generosity and the means-tested nature of benefits can also discourage youth from actively seeking and taking up employment. For example, youth receiving student allowance may only earn up to EUR 8 004 per year, provided they receive an allowance in all 12 months of the year.⁵ Similarly, any income above EUR 300 per month leads to a 50% reduction of an unemployment benefit entitlement. Rehabilitation subsidies also depend on other sources of income, and can lock youth into disadvantage. Taking part in four hours of rehabilitative work activity per week is sufficient to qualify for a full unemployment benefit, which potentially discourages youth from seeking more

substantial employment. Transitioning from rehabilitative work to a work trial also triggers the loss of certain benefits (e.g. transportation and travel allowances).

Is long-term benefit receipt a concern in Finland?

Benefit traps can discourage young people from continuing education or seeking full-time employment. This is particularly dramatic if such behaviour turns into long-term benefit dependency from which it is difficult to escape. The analysis presented in the following tables draws on official statistics of benefit recipients provided by the Social Insurance Institution, the National Institute of Health and Welfare and Statistics Finland.

Table 3.1 provides an overview of the number of youth recipients of unemployment benefits in 2016 and the duration of benefit receipt, broken down by the three types of unemployment benefit (earnings-related allowance, basic allowance, and labour market subsidy). Labour market subsidies are by far the most common unemployment benefit for 17-29-year-old youth, because many young people lack the work experience required to qualify for the other two types of payment.

The vast majority of young people who receive one of the two types of unemployment allowances receive benefits for less than 27 weeks. The duration of receipt is much longer for the majority of youth who receive a labour market subsidy. Notably, the proportion of long-term recipients of labour market subsidies (27 weeks and longer) is high among both 20-24-year-olds (50.3%) and 25-29-year-olds (65.1%) (Table 3.1). These high shares are likely to capture especially lower-skilled youth at risk of long-term disadvantage and benefit dependence. To receive a labour market subsidy for a longer period implies that these young people have already participated in several (mandatory) active labour market measures, thus facing either financial disincentives to, and/or significant trouble in, securing employment or a place in an educational programme.

Table 3.1. The duration of unemployment benefit receipt is long for young people in Finland

Recipients of earnings-related unemployment allowance, basic unemployment allowance and labour market subsidy in 2017 (year-end), by age and length of unemployment period

Age	Recipients	Distribution of recipients by length of ongoing period in weeks (in %)						
		0-4	5-12	13-26	27-52	53-104	105-	157-
Earnings-related allowance								
17-19	130	53.1	30.0	13.1	3.8	0.0	0.0	
20-24	6523	28.1	27.5	25.1	12.0	7.1	0.1	
25-29	14760	21.4	21.9	26.0	16.3	14.2	0.3	
Basic unemployment allowance								
17-19	286	36.4	42.3	20.6	0.7	0.0	0.0	
20-24	5270	23.8	24.9	27.4	14.4	9.0	0.5	
25-29	7228	16.0	18.8	26.1	19.8	18.0	1.3	
Labour market subsidy								
17-19	7212	18.3	22.9	29.3	24.4	5.0	0.1	0.0
20-24	24693	15.4	13.7	20.6	21.6	20.5	5.8	2.4
25-29	27074	7.5	10.1	17.3	19.8	25.5	11.8	8.0

Source: Social Insurance Institution.

Table 3.2 looks at the duration distribution of social assistance receipt among Finnish youth. Generally, benefit duration is much longer for social assistance spells than they are for unemployment benefit spells although the number of young people receiving social assistance is only about one-third of the number of youth receiving a labour market subsidy. Among 20-29-year-olds, many social assistance recipients received benefits for a period of 10-12 months: one in four of the 20-24-year-olds and close to 30% of the 25-29-year-olds.

Table 3.2. Escaping from social assistance receipt is more difficult for youth in Finland than escaping from unemployment benefits

Recipients of primary social assistance, by age and duration of social assistance, 2017

Age	Recipients	Distribution of recipients by length of ongoing period in months (in %)					
		1	2	3	4-6	7-9	10-12
18-19	2842	18.1	14.3	10.3	22.0	16.5	18.9
20-24	8765	16.8	12.3	9.5	18.8	16.7	25.9
25-29	6243	16.2	11.6	8.9	18.9	16.3	28.2

Source: Social Insurance Institution.

Table 3.3 sheds light on the number of 18-29-year-olds *entirely* dependent on social transfers (i.e. cases where social benefits account for more than 90% of the recipients' gross income) and the proportion of those with prolonged dependency of four consecutive years. Prolonged dependency on social transfers is relatively widespread and, in 2016, affected over one-fifth of the youth benefit population (22.6%). Prolonged dependency was highest among recipients of sickness and disability as well as child and family benefits but also affected one in four recipients of an unemployment allowance or a labour market subsidy. These high shares suggest that income support schemes lock young people in welfare dependency and discourage them from seeking employment or educational opportunities.

Table 3.3. Long-term dependence on social security is frequent among youth in Finland

18-29-year-olds by basic social security dependency and main income source, 2016

Type of income support	Recipients entirely dependent on basic social security	Share of recipients with prolonged dependency (in %)
All social transfers (total)	70802	22.6
Unemployment benefits	30347	24.7
Sickness and disability benefits	13872	30.8
Student financial aid	18154	10.1
Child and family benefits	7999	29.3
Other social transfers	372	20.7

Note: 18-29-year-olds. Year of reference 2016. Unit of analysis is the individual. Income refers to equivalent household disposable cash income. Entirely dependent on basic social security: basic social security benefits more than 90% of gross income. Prolonged dependency: entirely dependent for four consecutive years.

Source: Statistics Finland, Income and Consumption Database.

Of particular concern in this regard is the Finnish Child Home Care Allowance (CHCA), introduced in the mid-1980s with the intention to provide more choice to parents (a choice between using public day-care or staying at home with a child under age 3) and to reduce childcare costs (as cash for care is cheaper in the short term). Subsidising home

care is controversial as it can create an inactivity trap for women (Hiilamo and Kangas, 2009_[14]). The introduction of CHCA is, therefore, seen as a compromise between political groups (Sipilä, Repo and Rissanen, 2010_[15]). The take-up of CHCA is high and rather stable over time: more than 90% of all children born in Finland are cared for at home for some time and, in any year CHCA is received for more than half of all children between nine months and three years (Duvander and Ellingsæter, 2016_[16]). More than 90% of all recipients are mothers. Financial considerations matter: low qualified people with low income and many children are overrepresented among CHCA recipients (Ellingsæter, 2012_[17]) and take-up is highest in those municipalities that provide a significant CHCA top up (Kosonen, 2011_[18]). The impact on female labour supply is considerable. At around 50%, employment rates of mothers of young children in Finland are relatively low; long-term unemployment rates are especially high among mothers with children aged 3-6, i.e. after expiry of CHCA; and mothers with a temporary job or no job at the time of childbirth struggle most in returning to employment (Haataja and Nyberg, 2006_[19]). The influence of children on the gender employment gap is particularly large in Finland, comparable to Italy or the United Kingdom (OECD, 2018_[20]). However, CHCA not only affects vulnerable women as research has repeatedly demonstrated the positive long-term effects of quality day-care for children from disadvantaged families, i.e. those using CHCA most (Cornelissen et al., 2018_[21]).

There is no particular analysis available on the impact of CHCA on very young mothers and especially those with unfinished education. EU Statistics on Income and Living Conditions Survey data for 2017 show that almost half of all young mothers aged 15-29 with young children are NEETs (see Chapter 1). The CHCA can render staying at home more financially advantageous than engaging in training or paid employment, especially in municipalities that pay significant CHCA top ups. This is likely to have long-term consequences on the level of education and skills young women with children will achieve and, in turn, their employment and income trajectories. This adds to other evidence available that also points to a need to revisit the functioning of the CHCA.

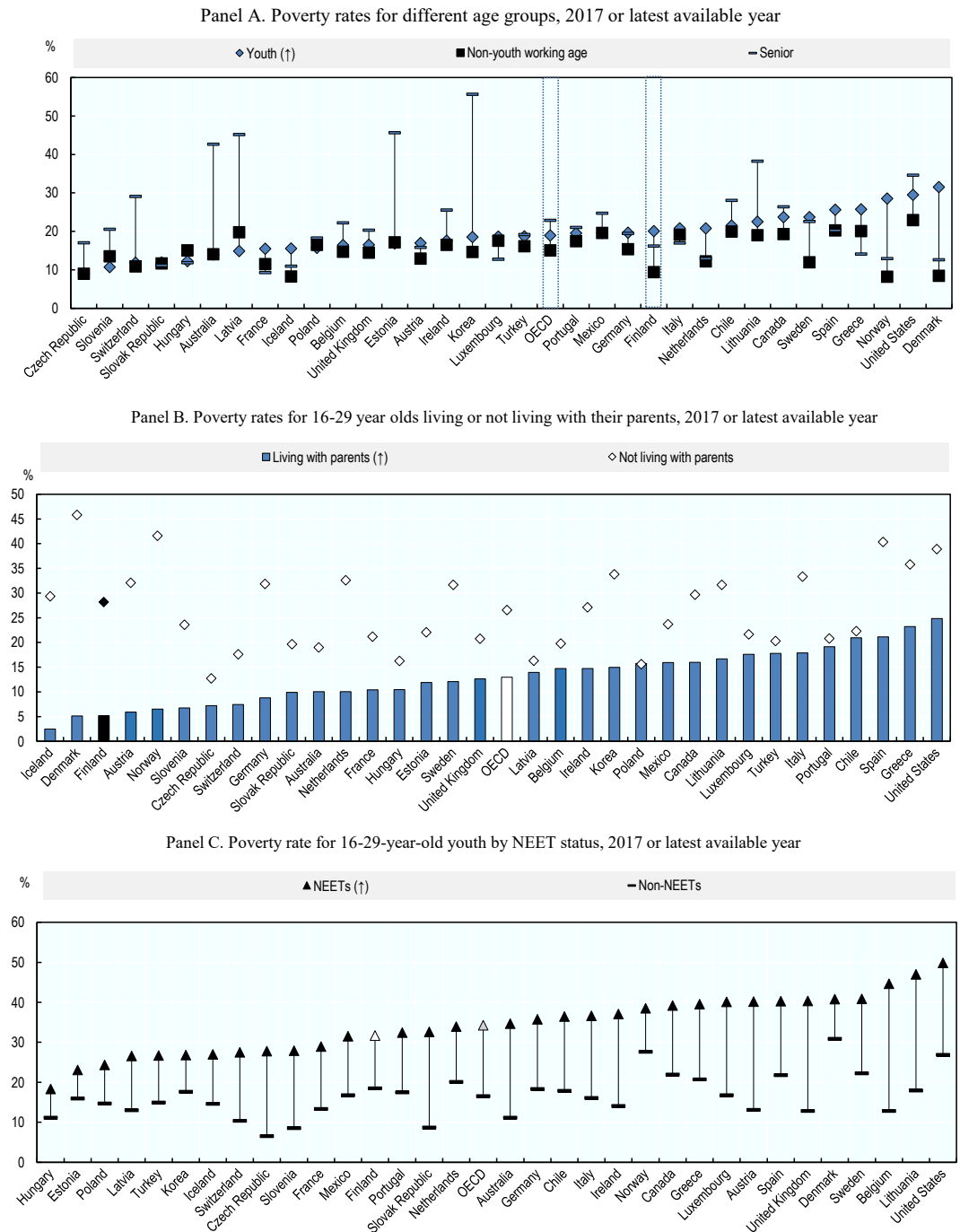
3.3. Youth poverty is relatively high despite a generous benefit system

Benefit dependence closely relates to youth poverty, which is also high in Finland. In 2017, 20% of the 16-29-year-olds in Finland lived in households with equalised incomes below 60% of the median income, commonly defined as the threshold for low income or relative poverty (Figure 3.8, Panel A). This compares with an OECD average for this age group of 18.9% and is in stark contrast with the poverty rate of the working-age population (9.4%) and of senior citizens (16.2%) in Finland, which are both below the corresponding OECD averages (15.1% and 22.8% respectively). Child poverty in Finland (children under age 15) is also among the lowest in the OECD, second only to Denmark (OECD, 2018_[22]).

While the share of youth who are relatively income poor is higher in Finland than in most OECD countries, it is lower than in other Nordic countries, including Denmark (31.5%), Norway (28.5%) and Sweden (23.7%). High rates of youth poverty across the Nordic region are a phenomenon driven by the fact that youth tend to leave parental home much earlier than in most other OECD countries. In 2016, for example, according to Statistics Finland only 17% of 20-29-year-olds in Finland still lived with their parents. Accordingly, there is a stark contrast in Finland (as well as other Nordic countries) in poverty risks between youth who live with their parents (5%) and those who do not (28%) (Figure 3.8, Panel B.). Moreover, like in other Nordic countries, education is a key driver

of the low-income levels among Finnish youth living independently (Okkonen, 2018^[23]; OECD, 2018^[8]).

Figure 3.8. Youth poverty is high in Finland because young people leave parental home early



Note: Individuals are poor if they live in a household with an equivalised household income (income adjusted by the number of household members) below 60% of the median. The poverty rate of seniors in Australia appears to be high because many retirees draw their pensions as a lump sum instead of receiving monthly payments. Data on Canada refer to 2011, for Korea to 2014, for Australia and Turkey to 2015 and for Iceland, Ireland, Mexico, Norway, Switzerland and the United Kingdom to 2016.

Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EUSILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN), the Korean Labor and Income Panel (KLIPS) and the US Current Population Survey (CPS).

Not only do students constitute the majority of this group but they also, typically, finance their living through a combination of student grants, housing allowance and student loans. Unlike student grants and housing allowance, however, student loans do not count as income. On top of this, student grants are means-tested, which limits the amount of income students can earn during their studies.⁶ The 2017 student allowance reform put even stronger emphasis on student loans, rather than allowances, which may have an indirect effect on youth poverty rates in the coming years.

Like in all OECD countries, also in Finland the low-income risk is higher among NEET youth than non-NEETs (Figure 3.8, Panel C.). The gap between these two groups, however, is smaller in Finland (as well as the other Nordic countries) than elsewhere: in 2016, 21% of NEET lived in poverty, compared to 14% of non-NEETs. The NEET poverty rate is also lower than the OECD average (24%), in stark contrast with the above-average rates for non-NEETs and youth overall. These trends likely reflect the overall generosity of Finnish income support, and the fact that different types of social benefits constitute a primary source of income for a significant number of (NEET) youths living independently.

3.4. Challenges for an easily accessible and generous benefit system

Finland allows young people to access a large range of benefits. This setup has a number of significant consequences. Some of the consequences are very positive but others are potentially highly problematic. The income support system in Finland successfully ensures that unemployed and inactive youth have a minimum standard of living. Benefits also target young people most in need quite effectively, reflected in much higher benefit receipt rates of the NEET population compared with other youth in Finland. On the downside, the benefit system is complex and disjointed, and creates traps and dependence that result from significant disincentives to seek work and leave benefit.

Three aspects are critical, all of them suggesting that significant reform may be necessary. First, easily accessible benefits allow young Finns to leave the parental home very early in life. Many of them appear income poor but 50% of median household income or a little less than this, which is the income that young persons on benefits will avail of, is enough for a very young person living alone to make ends meet. However, the system may also push some less mature young people into independence, often in a city far away from their home, at a critical time of life. This implies that comprehensive and integrated services need to be available to support those young people who need help.

Secondly, the easy access to benefits creates considerable benefit take-up. In turn, the system itself may not only support NEETs in a difficult period of life but may contribute to a larger than necessary size of the NEET population. To avoid benefit generation and benefit dependence, such a system must go hand-in-hand with a very strong activation regime to ensure young people actively engage in further education or seek employment.

Activation of benefit recipients, however, is rather weak in Finland and several of the benefits are available without any obligation attached to them. Not surprisingly, the result is that the average duration of benefit receipt is relatively long and that the system locks a significant share of the beneficiary population in long-term benefit dependence.

Thirdly, the system is fragmented and disjoint, with no direct connection between different types of payments and limited connection between benefits and employment services. The latter hinders the implementation of a stronger activation regime, while the former implies that young people may face different incentives to seek work depending on the type of benefit they receive and may seek to access the most generous payment with the least obligations attached. This phenomenon is visible in the continuous increase in Finland in the disability benefit caseload even though this increase probably also has a number of other causes. Streamlining the benefit system and merging all benefits into one single payment could be a response, thereby ensuring all young people have the same level of income support and the same engagement and job-search obligations that ensure strong incentives to move off benefit. Earlier OECD reports have proposed to streamline benefits for the population more generally (OECD, 2010^[24]), but overcoming the fragmentation of the system would seem an especially powerful and necessary step for youth as benefit dependence early in life has dramatic implications for employment prospects later in life.

In this context, a universal payment that might pay less than the benefits currently available but is not withdrawn when the recipient moves into work or increases the work effort – similar to the basic income trialled in Finland in the past two years – could represent one possible solution, as discussed in OECD (2018^[9]) and Hiilamo et al. (2017^[2]). For youth, a universal participation income of such kind could remove the disincentives to work or to study stemming from the existence of four rather different income support schemes (social assistance; student allowance; unemployment benefit; disability benefit). Any universal payment should be conditional on participating in obligatory activities and support services, or employment. Such conditionality would also allow the authorities to reach out and provide adequate services to some of the most vulnerable youth, i.e. youth who struggle to find employment, or at least a connection to society, but who do not claim public benefits. Today, vulnerable young people not claiming any social benefit will often remain unidentified and unsupported.

Preliminary results of a thorough evaluation of the first year of the Finnish basic income experiment, exploiting register, survey and interview data, find no effect on i) the number of days spent in employment and ii) the income received from self-employment. At the same time, recipients self-report better general health and lower levels of stress (Kangas et al., 2019^[25]). The Finnish experiment thus appeared to be employment-neutral while enhancing wellbeing, with limited impact on total public spending. Applying this finding to the youth population, however, is not possible, for two reasons. First, the experiment only included longer-term unemployed who received a social benefit; the behavioural reaction of other groups including people not receiving any benefit is unknown. Secondly, the results refer to people of all ages; specific results for youth and young adults are unknown and people under age 25 were not even included in the experiment. Any attempt to replace benefit entitlements for youth and young adults with a conditional universal payment would necessitate an expansion and re-evaluation of the basic income experiment.

3.5. Connecting benefits and employment services

Moving towards a single benefit payment, more generally or only for young people up to a certain age, is conceptually very promising but implementing such change requires a major transformation and broad societal agreement on the direction of travel. For this reason, only few OECD countries have taken such steps and where they did they have merged only some benefits to reduce the array of different payments and streamline the system but have shied away from moving towards just one payment. For instance, countries have merged all their means-tested payments (e.g. Universal Credit in the United Kingdom), their health-related payments (e.g. Ireland and Norway), or their unemployment benefits (e.g. Germany). New Zealand probably came closest to introducing a single working-age payment but, with its welfare reform in 2013, ended up with three main benefits with some differences in payment rates and the degree of obligations and job-search requirements attached to them.

Especially for young people who have either no or a very short work record, the case is weak for having an array of different benefits in place, including benefits with limited or no employment support and activation mechanism. This is why some countries such as Denmark, for example, are in the process of replacing disability benefit payments for young people by a strong rehabilitation approach for this group, to prevent benefit dependence and achieve a higher degree of social and employment integration (OECD, 2015^[6]).

3.5.1. Activation could be strengthened in the Finnish system

Even if the number of benefits available remains unchanged, the Finnish government can take a number of steps to streamline the benefit system by strengthening activation and making available benefits similar in terms of job-search and participation requirements. Activation generally is a weak point in the Finnish benefit system compared to other OECD countries because the society does not really tolerate the concept of benefit cuts, the logical counterpart of activation requirements. Unemployment benefit recipients in Finland have an obligation to register with the local office of the Public Employment Service (PES), to prepare an employment plan and follow the plan, and to look for jobs and accept decent job offers. However, practically jobseekers rarely meet their counsellor and not fulfilling participation requirements has only relatively modest consequences. Activation and sanctions are weaker for those receiving social assistance and non-existent for recipients of a disability benefit or a student allowance.

The activation model for unemployment security in Finland, in effect since January 2018, has strengthened the activation component but in international comparison, the regulation is very mild. Unemployed people will now lose part of their entitlement after three months of being passive but the loss in benefit can never surpass 4.65% of the person's entitlement⁷ and requirements to circumvent a sanction are rather modest. Just 18 hours of work over a 65-day period of benefit receipt, for example, or five days of participation in services or activities proposed by the local employment office will suffice to avoid a sanction. These requirements and the corresponding sanction are not enough to trigger significant change in behaviour⁸ – even if the PES reviews the behaviour of the benefit recipients periodically, every three months. It is likely that people will continue to exhaust their comparatively long unemployment benefit entitlement (300 days of benefit receipt for a young person, which corresponds to a period of 14 months). Rigorous activation has shown to be very effective in reducing unemployment duration, also in comparable countries like Denmark.

A related critical issue for Finland is to strengthen the connection between the authorities responsible for benefits and for employment services, i.e. between KELA and the PES. The current disconnection between the two authorities reflects the limited focus on activating jobseekers and those further away from the labour market. KELA refers persons entitled to benefits to employment services and, possibly, other services but it is up to the persons themselves to contact those services. This disconnection is particularly problematic for people with multiple needs, who would have to approach a multitude of authorities to get all the support they need. Even within KELA, which operates most social benefits, the system suffers from fragmentation: different units manage different types of benefits, but case files of the same recipient are not connected and caseworkers have no overview of the different benefits a person receives, or has received.

3.5.2. The impact of social assistance reform remains to be seen

A recent reform of social assistance has potentially complicated matters further by delinking the payment of last-resort benefit from the provision of social services. Since January 2017, KELA is responsible for paying and determining eligibility for social assistance, which often complements other social benefits such as housing allowance or unemployment benefit. However, social services or tailored social work interventions, which about one in two of the recipients of social assistance need, remain in the hands of the municipalities.⁹ Like with other benefit recipients, KELA redirects recipients in need for social services to the municipal social work but it is up to the people to seek municipal support. The aim of the reform was to centralise social assistance and reduce local discretion, ensure equality across Finland, and lower non-take up caused by the stigma around application for social assistance. The reform may increase the number of people receiving such a payment without increasing the number among them who receive the support they need, including especially support in getting ready for and accessing the labour market. On the other hand, municipal social workers have less administrative work than in the past (as they no longer have to deal with benefit matters) and should therefore have more time for their clients.

It will be important to monitor and evaluate the impact of the social assistance reform on take-up rates as well as the chances of those receiving a payment for a temporary period to move off benefit and into the labour market. Understanding and responding to the evaluation results is particularly important for youth and young adults who, as discussed above in detail, are much more likely in Finland than in most other OECD countries to receive social assistance: in 2017, 18% of the 18-24 year olds were entitled to social assistance. They also face particularly large disincentives to seeking work or continuing education due to the level of payment, which is comparatively high in both absolute terms and relative to the wage these young people could potentially earn in the labour market. Evaluations will also have to look into the extent to which the reform has affected large regional differences in the take-up of social assistance (which ranges from 10% to 26%) and its persistence. Longer-term benefit dependence at a young age can have significant negative effects on those people's employment paths.

3.5.3. A multitude of services and initiatives but they still operate in isolation

Better linking benefits and services is critical, especially for a generous system, to avoid benefit dependence and facilitate employment integration. Currently, KELA and the PES are two distinct organisations with distinct interests and portfolio. Other countries have made significant efforts to bring the employment service and the benefit authority closer together, by either strengthening co-ordination or implementing a one-stop-shop principle

(OECD, 2010^[24]). The United Kingdom, for example, merged the Benefits Agency and the Employment Service in 2002 to offer a single point of entry for jobs, benefits advice and employment support. Norway merged the Insurance Administration and the Employment Service in 2006 into a new national agency, the Labour and Welfare Administration, which also collaborates very closely and on the same premises with the local welfare offices.

Finland also recognised the need for service integration in the early 2000s, when it was facing high levels of structural unemployment, but shied away from structural reform. Acknowledging the roles and powers of KELA, the PES and the municipalities, instead new units were formed in 2004 – the Labour Force Service Centres (LAFOS) – that sat between the already existing institutions.¹⁰ The 39 LAFOS, in place until 2015, offered multi-professional services to difficult-to-place unemployed people with special needs. They operated as one-stop-shops for clients referred from either the municipality or the PES, which each provided 50% of the LAFOS staff and collaborated, as necessary, with KELA and the municipal health services. With a staff of around 670 people, they served about 25 000 clients every year. The LAFOS target group were long-term jobseekers who exhausted their unemployment entitlements, i.e. people unemployed for over two years, and long-term recipients of social assistance. LAFOS intervention was generally directed to employment in the intermediate labour market (subsidised work), with the aim to prepare disadvantaged groups for employment in the open labour market at a later stage. However, LAFOS caseworkers could access all PES schemes as well as basic health services provided by the municipalities.

LAFOS units are going through major reform since the ratification of the 2015 *Act on multi-sectoral joint service*, also sometimes referred to as “New LAFOS”. New LAFOS is a permanent network bringing together PES services, municipal social and health services, and KELA’s vocational rehabilitation, and operating under a unified, binding framework. This framework includes a tripartite appointment to start the assessment and draw up a multi-sectoral employment plan (the mapping phase), dual appointments to carry out the plan, and tripartite appointments to review the plan and discontinue the service, where appropriate (Liski-Wallentowitz, 2016^[26]). The new approach shall provide well-integrated services to some 90 000 people every year, a much larger client number than in the past, including a larger number of young people with multiple needs. An evaluation of the implementation and success of the reform is not available at this moment.

Well-integrated services are particularly important for young people with multiple needs. A recent study found sobering results on how the use of PES measures has affected young people: participating in interventions did not seem to change young people’s situation significantly (Sutela et al., 2018^[27]). Rather, people with considerable disadvantage – which includes low education, a high prevalence of health and especially mental health issues – seem to rotate between different benefit systems and PES interventions. The study also found that 75% of the 1987 birth cohort has registered as unemployed at least once in the period 2005-15 and that less than 40% had participated in PES interventions. Only the most employable youth have benefitted from the interventions measured through the number of workdays before and after intervention.

One big challenge is to ensure that the many different services available to youth reach them at the right time and in the right way. Another challenge is to improve the provision of integrated services, which combine employment and job-search support with mental

health services and treatment as well as social services. KELA runs a number of initiatives to help young adults into better life paths:

- One such initiative is a project to develop rehabilitation services for discouraged NEETs. The entrance criteria for vocational rehabilitation organised by KELA changed in 2019 to make it easier for young people to qualify. During 2018, KELA ran several trials to test how functional impairment can determine eligibility without requesting the young person to present a diagnosis or a medical certificate (Löfstedt, 2018^[28]). The initiative could be an important step in raising the number of young people participating in vocational rehabilitation, including basic, vocational or higher education, job coaching and work try-outs, in addition to intensive medical rehabilitation and rehabilitative psychotherapy.
- A second KELA initiative is the Young Adults project, the aim of which is to design a new approach to identify young people at risk of marginalisation; reach out to them and direct them to the right service; and work together with other actors, especially municipal social and health service (Paimen, 2018^[29]). KELA has comprehensive information about every person's circumstances through its benefits register, including about unemployment (unemployment benefit); lack of income (social assistance); teen parenthood and custody cases (family benefits); exemption from conscript service (conscript's allowance); and medication use (reimbursement for medicine costs). The idea of the project is to make use of that information and identify new ways of contacting and guiding young people at risk.
- A third interesting project is a case management service trial which was run in the first half of 2018 and targeted unemployed persons under age 30 at risk of marginalisation. The aim of the trial was to test the potential of KELA-provided case management for this group; understand customers' needs; learn what kind of expertise case management requires; and target resources to those with the greatest needs – with the ultimate goal to develop and implement an appropriate and effective case management approach at KELA (Hokkanen, 2018^[30]). Importantly, it should be possible to start a case management approach whenever indicated, at any moment during KELA's customer service process.

All three KELA projects are part of a broader response to the piecemeal service approach for young adults in Finland. Earlier findings suggest that stigma around needing benefits and support is still high; that available information is often outdated and incomplete, as family and friends are the first source of reference; and that 20-25% of young people have mental health problems, affecting their organisational and life management skills. Addressing mental health problems, therefore, should be a priority (see Box 3.1). A main problem also with the new KELA projects could be their poor connection with existing services and initiatives – echoing KELA's general problem of its distance from other actors – thus adding to the fragmentation of services rather than overcoming it.

Box 3.1. Employment support for young people with mental health issues

Young people with health needs are not the main and first target for either PES or LAFOS intervention. This is interesting in view of a very high prevalence of mental health issues, often undiagnosed and unidentified, among young people – with between one in four and one in five affected at any point in time, with the majority of mental health issues being of a mild-to-moderate nature. Among young benefit recipients, especially those receiving social assistance, the share can be much higher and often reach 50% or more – as was found in many OECD countries (OECD, 2015^[6]). Addressing mental health barriers is therefore critical for the provision of effective employment services.

Mental disorders are also the leading cause of work disability among young adults in Finland, as in other OECD countries. A recent Finnish study found that the most common diagnoses among recipients of a temporary disability benefit aged 18-34 years were mood disorders (39%), schizophrenic disorders (34%) and bipolar disorder (14%). Half of those adults had been attached to the labour market before claiming a disability benefit; also one half had received work-oriented intervention or at least had such intervention in the treatment plan; and 40% had received psychotherapy or had a plan for it (Mattila-Holappa, 2018^[31]). Only one in five worked six years later and most of those who worked had both planned psychotherapeutic and work-oriented interventions. This suggests that in many cases the work capacity was considered low from the very beginning – again a phenomenon that is found in many OECD countries (OECD, 2015^[6]).

Caseworkers from KELA, PES, LAFOS and the municipalities need significant mental health competence and corresponding mental health training to understand and recognise people's capacities and barriers to (re)integration and be able to refer them to the right types of services, which, especially for youth, will often include mental health services.

3.6. Unlocking the potential of the Youth Guarantee

Over the past two decades, the Youth Guarantee was the biggest and most visible effort in Finland – just like in most European countries – to help young people struggling to make a smooth transition into employment. The Youth Guarantee is a general framework with considerable funding from the European Social Fund during the past decade to tackle high rates of unemployment of youth resulting from the 2008-09 crisis to prevent them from becoming a lost generation. The challenge for the coming decade will be to make interventions and institutions introduced under the Youth Guarantee more accessible and effective throughout the country and to maintain the funding for those initiatives.

The Finnish Youth Guarantee scheme which inspired the EU Youth Guarantee was first introduced in 1996 and underwent major revisions in 2005 (when a social guarantee was added), 2010 (when significant EU funding became available) and 2013 (when it was relaunched and extended to 25-29 year olds), and it is currently rebranded and remodelled again into a *Community Guarantee*. In its current form, it makes two important promises to young Finns to prevent their exclusion from the society or, at least, reduce their risk of exclusion – via a training and a youth guarantee. In addition, it made a temporary offer, valid for three years, to those under age 30 who had already left the education system without a degree prior to the 2013 relaunch (Youth Guarantee Working Group, 2013^[32]):

- Within three months of becoming unemployed, each young person under age 25 and recent graduates under age 30 will be offered a job, a work trial, a study place or a period in a youth workshop or in rehabilitation (“youth guarantee”).
- Every person completing lower-secondary education has a guaranteed place in upper-secondary school education, vocational education, apprenticeship training, a youth workshop, rehabilitation or some other form of study (“training guarantee”).
- Young people aged 20-29 years who completed basic education before the training guarantee came into effect and who have not completed any degree get additional possibilities to complete initial vocational education (“skills programme”).

The training guarantee has helped to increase the number of young people moving directly to upper-secondary education, voluntary additional lower education or preparatory training, through an increase in vocational education places and by giving priority to those places to people who have completed comprehensive school without upper level vocational qualification. Among those people who finished their lower-secondary education in 2014, only 2.5% did not apply for further studies and among those who applied, almost 99% received a place (Youth Guarantee Working Group, 2015^[33]). The skills programme – which was in force until the end of 2016 – has also reached its targets.

3.6.1. Youth guarantee performance outcomes are in line with those elsewhere

Other results are more difficult to establish, partly because of the difficult economic situation in Finland in the past few years and because of several other parallel reforms, especially the reforms of the PES (see Box 3.2). Both youth and overall unemployment have increased after 2013 (more than in any other EU country) contrary to a trend decline in unemployment over that period in a majority of EU countries (see Chapter 1).

EU countries have to measure the performance of the Youth Guarantee regularly through a number of agreed indicators, including the share of people reached by the youth guarantee (coverage); the share still in the Youth Guarantee after four months (implementation); and the outcomes achieved immediately after exiting the Youth Guarantee services and also six months afterwards (outcomes). Information on the longer-term outcomes achieved is not available for Finland because follow-up data are not collected. Other indicators suggest that the outcomes are in line with those of other EU countries or slightly better (Figure 3.9):

- Finland’s Youth Guarantee reaches a high share of its NEET population: in 2016, it reached 75% of all NEETs, the second highest proportion after Austria;
- The share of people still in the Youth Guarantee four months after they started it was 49% in 2016 (six months after the start this share was still 24% and 12 months after the start it was 8%); these shares equal the averages among the 28 EU countries.¹¹
- The share of people leaving Youth Guarantee services with a positive outcome is 48% in 2016, which is slightly higher than the EU average of 44.5%.
- Of those leaving with a positive outcome, 57% have left into employment, which is below the EU average of 72% and among the lowest values of all countries.

Box 3.2. Recent reforms of the Public Employment Service

With the introduction of the Youth Guarantee, the Public Employment Service of Finland shifted more of its attention to the youth population. Over the same period, however, the PES went through a series of more structural reforms not targeted on young jobseekers but affecting them as much as all other jobseekers. Especially the various reforms started in 2013 affected the way in which the PES operates, with three major changes.

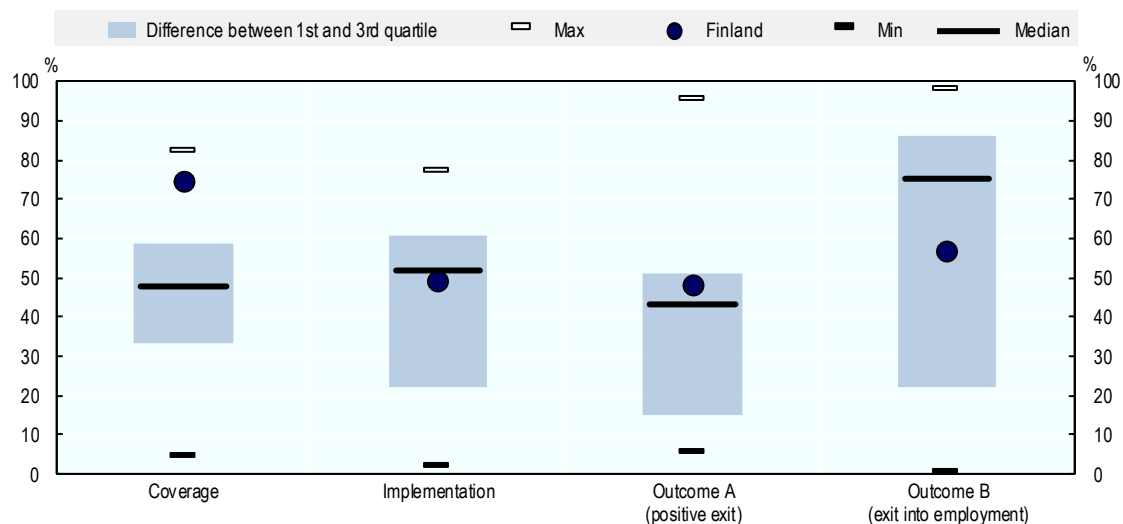
First, the PES introduced a new profiling system, which assigns jobseekers to one of three groups and directs them to one of three service lines. These are: i) low-threshold services matching job-ready jobseekers quickly to available vacancies; ii) competence development services for people struggling to find a new job because of outdated or insufficient skills; and iii) subsidised employment services for hard-to-place jobseekers. Profiling has become a standard procedure for employment services in many OECD countries but Finland has gone a step further by also establishing three parallel, independent service lines. Potentially this approach could ensure that jobseekers with greater difficulties receive services better tailored to their needs. Young people could especially benefit from a quick transfer to competence development services, if they have left the education system without a degree. However, the success of the reform hinges on the quality of the profiling tool. Fluidity between service lines and repeat assessments to identify barriers and corresponding services are, therefore, important, as has been found in other countries such as Australia (OECD, 2015^[34]). A quantitative assessment of the impact of this change is not available. A first qualitative evaluation found considerable problems initially in implementing the new structure: concentration on internal matters and procedures hindered a stronger focus on collaboration with external partners (Arnkil, 2014^[35]).

Second, the PES has gone through a process of re-regionalisation. While PES operations have long been in the hands of local governments, as of 2013 more power was given to 15 new-formed regional units, the so-called ELY centres. The new regional units receive guidance from the national level and have to provide guidance to the 120 local units, the so-called TE offices (OECD, 2016^[36]). The reform aims for higher service efficiency and service improvements for disadvantaged jobseekers by harmonising nation-wide services and reducing local discretion (Weishaupt, 2014^[37]). Evaluating the impact of the reform will be critical. Monitoring its effectiveness is especially relevant because the reform has anticipated the much larger forthcoming reform of health and social services as part of a broader administrative reform (see below). Initial evaluation suggests considerable lack of clarity in the division of responsibility and labour between local TE offices and regional ELY centres (Arnkil, 2014^[35]).

Third, the PES has seen a gradual shift in the past few years towards online services, not only for the initial registration but also for part of the subsequent interaction with the PES. This shift also needs careful evaluation. The sharp increase in the jobseeker caseload i.e. the number of jobseekers per PES counsellor, from 80 in 2010 to around 160 in recent years, suggests that cuts in PES resources may have been the main driver of this reform (OECD, 2016^[36]). For some jobseekers, communicating online is normal and thus easier but for others face-to-face contact is critical to develop their skills and competences and to find a new job. Young jobseekers may be in a better position to benefit from this change.

Figure 3.9. Finland's Youth Guarantee reaches a large share of its NEET population, with outcomes broadly in line with those in other EU countries

Key standard outcome measures on three dimensions of Youth Guarantee services: coverage, implementation and outcomes, 2016



Note: Coverage = Annual number of young people in YG services as a share of the NEET population. Implementation = Proportion of young people in YG services beyond the 4-month target (for Finland: 3-month). Outcome A = positive and timely exits from the YG service. Outcome B = share of exits leading to employment.

Source: Administrative data from the European Commission.

Between 2014 and 2016, coverage has further increased from the already high level, suggesting a continuously increasing awareness of the Youth Guarantee. However, the average duration people spend in services has increased and the outcomes have worsened. Presumably, the deteriorating employment outcomes are largely a result of worsening economic conditions. Several studies conclude that the Youth Guarantee has encouraged and forced the PES and other actors to focus on young people and their specific needs (Eurofound, 2015^[38]; Eurofound, 2012^[39]).

These comparative data refer to the age group 15-24 years only, the target group for the Youth Guarantee in most other EU countries (European Commission, 2018^[40]). Results for Finland for 25-29-year olds suggest that they participate in the Finnish Youth Guarantee as much as their younger counterparts but tend to stay longer to achieve comparable outcomes. Gender-specific data suggest young women in Finland participate less often but if they do, they achieve slightly better outcomes (54% positive exits for women, 44% for men).

A more qualitative evaluation of the Youth Guarantee has identified a number of promising practices across Finland aimed at preventing the social exclusion of young people, as well as at promoting young entrepreneurship, preventing the exclusion of young immigrants, and promoting the cooperation with employers (Keränen, 2012^[41]). The study demonstrates that the implementation of the Youth Guarantee and the public-private-people-partnership models developed vary substantially across Finnish regions and municipalities. Promising features of the good practices identified include flexible operating models, individually tailored solutions, shifting to meaningful and work-

oriented training, and services that are easily accessible for young people and employers alike.

3.6.2. The effectiveness of active labour market programmes is limited

The Finnish Youth Guarantee scheme focuses largely on ensuring to draw up personalised plans for young people quickly, to prevent unemployment and social exclusion. Initially, the PES alone was obliged to carry out the scheme, including an assessment of needs and identification of the corresponding support, within the first three months after a young person has registered as unemployed (Eurofound, 2015^[38]). The PES in Finland did not develop special programmes for young people as a response to the Youth Guarantee but made more efforts to ensure young people can access all active labour market programmes (ALMPs) already in place. These programmes include:

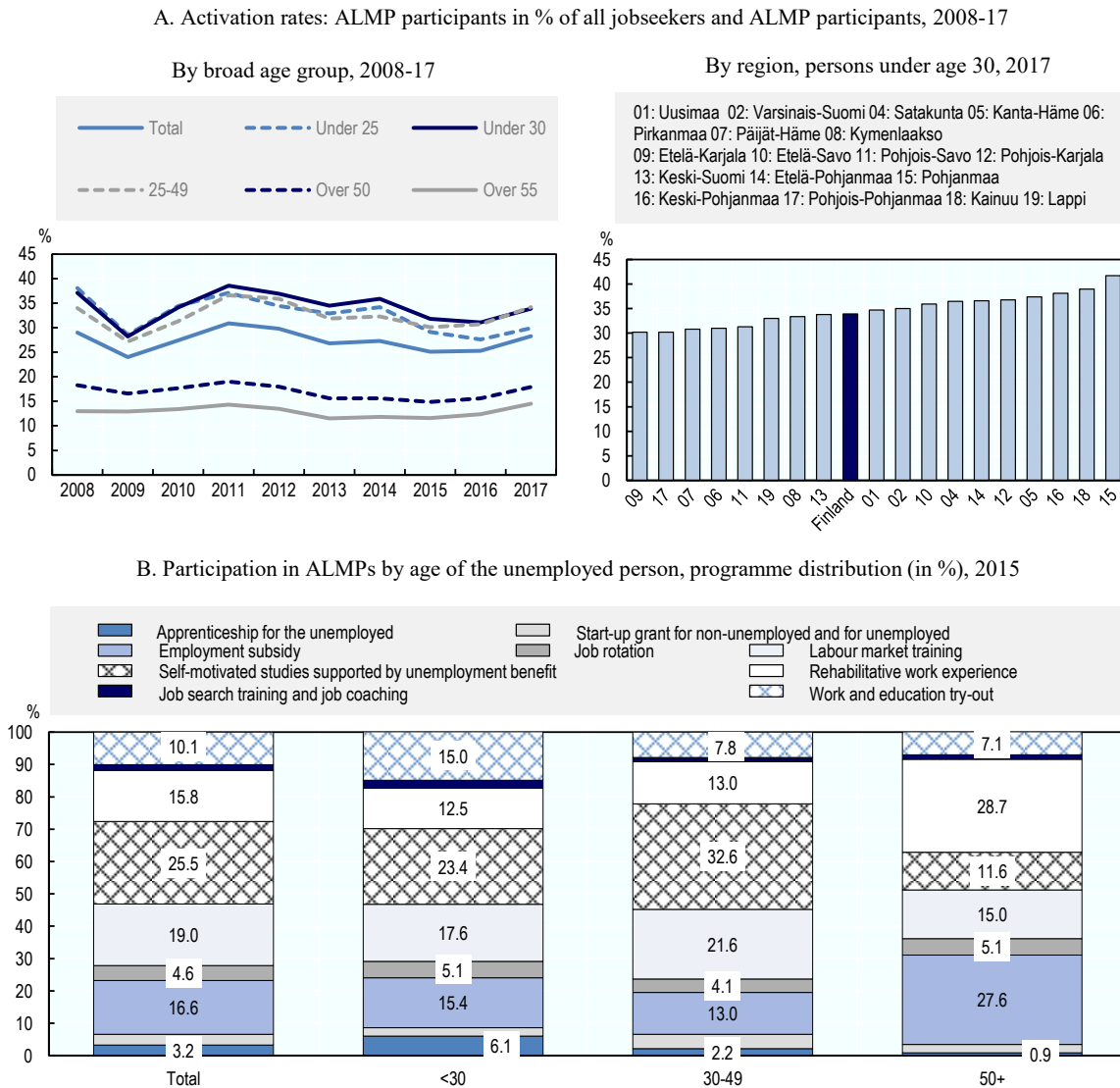
- Employment subsidies (up to ten months) and start-up incentives (up to 12 months).
- Labour market training (up to more than a year) and self-motivated studies (up to two years, provided jobseekers are eligible for an unemployment benefit).
- Apprenticeships (up to two to three years).
- Various types of traineeships such as work try-outs (for one to three months), coaching (up to 40 days per year) and rehabilitative work experience (for three months).

There are no data available on the use of PES services linked only to the Youth Guarantee. Maybe because of the Youth Guarantee, in Finland young people under age 30 are more likely to be on an ALMP measure than older jobseekers: in 2017, for example, the so-called activation rate (i.e. the share of those on ALMP out of all registered jobseekers) was 33.9% for those under age 30 (Figure 3.10, Panel A). This rate was twice the rate of jobseekers over age 50 who have rather poor chances of finding new employment and face high levels of long-term unemployment. The overall activation rate was 28%. However, this “relatively” high activation rate of young people in Finland registered with the PES also implies that, nevertheless, in a given year more than two-thirds of them are not on any support measure. In the past two years, the activation rate has increased for jobseekers over age 25 but not for those under that age. Moreover, for young adults under age 30 the activation rate in 2017 is still lower than the corresponding rate in 2008, prior to the great financial crisis. Additional investments brought into the system through the Youth Guarantee have not been enough to compensate the per capita decline in PES resources experienced after 2008-09, which has led to a doubling of the caseload from around 80 jobseekers per PES counsellor prior to 2009 to around 160 jobseekers from 2015 onwards (OECD, 2016^[36]).

There is also some variation in the activation rate by region but regional differences are surprisingly small: the activation rate for the under-30s varies from 30% to 40%, suggesting the approach taken by regional and local PES offices may be similar (Figure 3.10, Panel A). Of all ALMPs provided to young people, around 40% fell into the training category, 30% into the work practice category, 24% into the employment subsidy category, and the remaining 6% were apprenticeships (Figure 3.10, Panel B). Available outcome indicators suggest that six months after the end of a training measure, about one in three participants are in employment (OECD, 2016^[36]); age-specific programme outcomes are unavailable. Across all ALMP measures, the share in employment six months afterwards is just over 20% and for work try-outs, only 10%. The relatively

disappointing overall programme outcomes are in part due to inactivity traps arising from the benefit system (see above).

Figure 3.10. Only one in three young jobseekers in Finland are in labour market programmes



Note: ALMPs = Active Labour Market Programmes.

Source: Administrative data provided by the Ministry of Economic Affairs and Employment.

The PES in Finland could take several steps to achieve improvements in the outcomes of services that it provides. A first change refers to its data collection and profiling approach. The PES has no information on the previous experience of new entrants or customers and, therefore, no information on repeat participation. Collecting this information systematically and using it in the profiling process could enhance efficiency and the effectiveness of services. Similarly, the PES is not following-up on those leaving its services or leaving benefits. Hence, it cannot provide in-work follow-up support, which is often cost-effective and effective in preventing repeat unemployment.

Secondly, the Finnish PES is weak on the skills side: it is not assessing jobseekers' skills systematically nor is it applying a system of recognition of prior learning. This shortcoming may be a bigger problem for mature jobseekers but it can also hinder the best possible intervention for youth who have left the education system a while ago.

Thirdly, contrary to other countries the Finnish PES is not working with schools directly. This is an untapped potential. There are a number of interesting cooperation examples in other OECD countries. Some of them aim at engaging with schools to help in the transition to higher education, like Austria's "Youth coaching" (OECD, 2015^[42]) or Japan's "Hello Work" (OECD, 2017^[43]). Other examples include Norway's "NAV youth workers" who reach out to students with multiple barriers (OECD, 2018^[8]); and Denmark's "Building bridges to education" programme that is aimed at reengaging social assistance clients with vocational schools (European Commission, 2016^[44]).

Finally, Finland must do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities, including the employment and training measures offered by the PES but also rehabilitation programmes offered by KELA. Systematic impact assessment is critical for effective investment choices and informed decisions about the expansion of successful and the elimination of ineffective programmes.¹² Evaluations seem costly but they can lead to very considerable savings in the medium term. While only few OECD countries do evaluations on a systematic level – e.g. Belgium (Flanders), Estonia, Germany, the Netherlands and Norway –, Finland could learn from the United States where the government has been instrumental in promoting impact evaluations based on robust, scientific methods to promote reliable, evidence-based policy-making. US laws that provide funding for programmes often include specific requirements for programme performance tracking and impact evaluation. The evaluation could include methods at three levels of excellence, depending on available time and data and the resources set aside for programme performance assessment (OECD, 2016^[45]):

- Well-designed randomised controlled trials that evaluate the impact of an intervention on participants compared to a control group (tier one);
- Quasi-experimental settings whereby the control group consists of individuals excluded from the programme because of programme rules (tier two);
- Statistical descriptive studies on programme outcomes (tier three).

3.6.3. Strengthening the powers of the Ohjaamo centres

Over the years, Finland has taken more and more responsibility for the Youth Guarantee out of the hands of the PES and concentrated its efforts on the introduction and expansion of One-Stop Guidance Centres (Ohjaamos), which offer multi-agency services to young people up to age 30 to help them in matters related to work, education and everyday life. The multi-agency collaboration under one roof, which involves the PES (which continues to play a key role), is a recognition of the striking fragmentation in Finland of services and benefits available for youth and the need for cooperation between various authorities.

Ohjaamos are a big step ahead in a variety of ways and acknowledged as good practice in virtually every comparative report on the matter produced by the European Commission in the past few years (European Commission, 2016^[44]). The basic idea is that Ohjaamos provide information, advice and guidance to young people on any service available for them, including employment services offered by the PES, benefits provided by KELA, rehabilitation and other services offered by KELA, health and mental health services,

services for substance abusers, municipal social services, study counselling, job coaching, outreach youth work, and youth workshops. The immediate aim of the Ohjaamo service is to shorten unemployment spells by helping young people navigate the system, claim all benefits they are entitled to, and access all services available to them.

The medium-term aim is to go beyond what is currently available and beyond the capacity of every authority involved. First, by providing case-managed support to help users identify a comprehensive, holistic service package. Second, by building effective local networks and partnerships and facilitating the development of new services and interventions if needed, such as study counselling and psychosocial services. Third, by building own capacity in the regional Ohjaamo, for instance by hiring occupational therapists and psychologists to address jobseekers' health needs quickly.

Määttä (2018^[46]) compiles insights on the development path of the Ohjaamos between 2014 and 2017. Ohjaamos have received wide support by the government, the regional and local offices of the PES, KELA and local authorities, but also from NGOs and businesses who all joined up to develop a multi-agency concept and on-the-ground leadership with the aim to challenge and change conventional practices and operational cultures. The report builds on the notion that service provision in silos in which every system follows its own agenda and objectives is economically inefficient, if not unsustainable, and highly inefficient from the perspective of a youth customer with multiple barriers and in need of multiple services.

The government has taken several steps to make the ambitious aims and promises possible. For example, it enhanced the funding for youth workshops and youth outreach work, increased the number of places in vocational rehabilitation, and broadened the availability of student counselling also to graduates. Other measures included a higher compensation for employers offering apprenticeship training and an expansion of subsidised employment for young jobseekers to lower the hiring barrier for employers.

Notwithstanding such improvements, Ohjaamos face a number of critical challenges. They include three related aspects in particular: their actual functionality and effectiveness; their heterogeneity across the country; and the sustainability of funding.

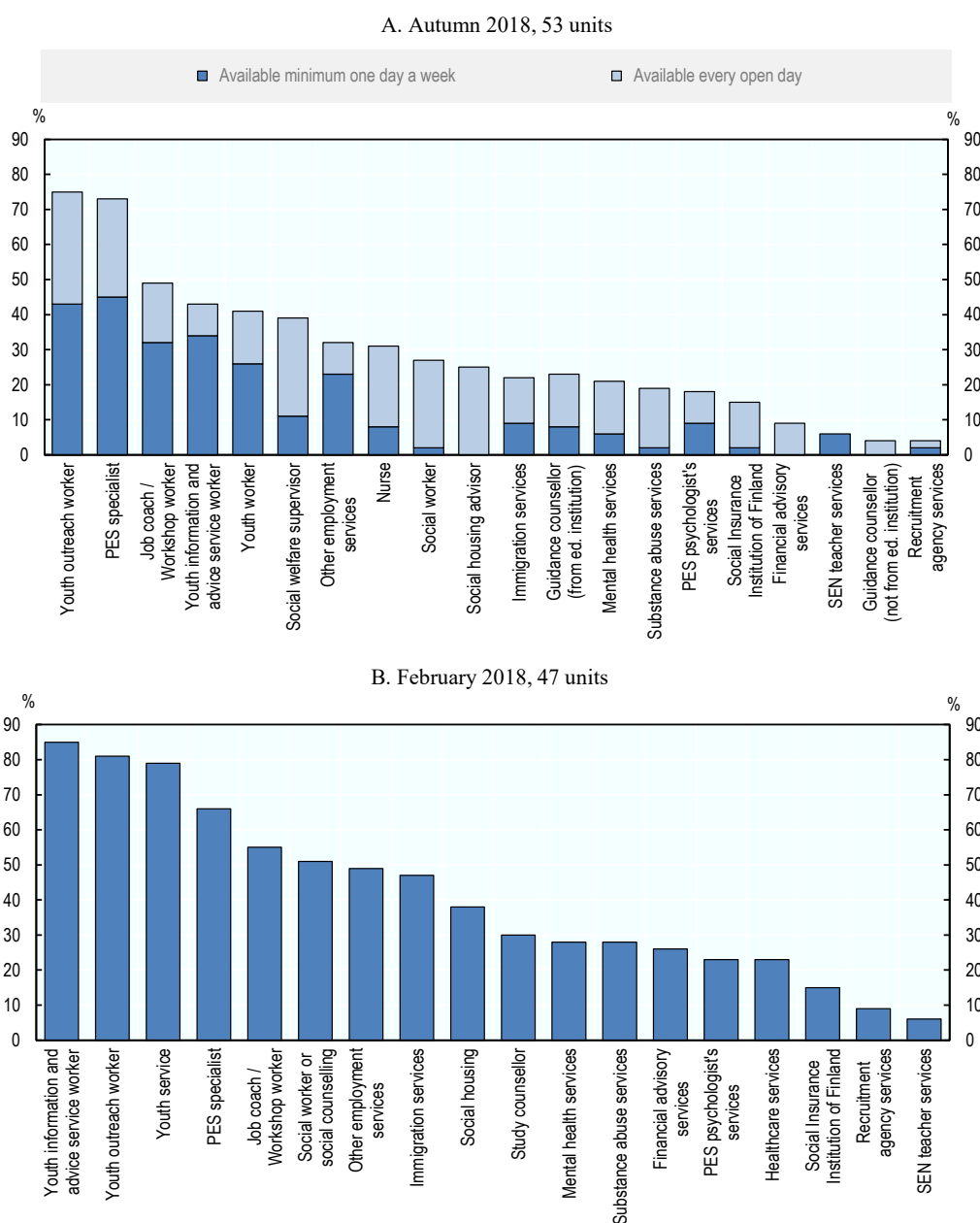
Critics claim that most Ohjaamos are not offering a multi-agency service, certainly not in their initial phase, but are merely a juxtaposition of workers from different bodies and institutions who each follow their own agenda. In other words, they are a continuation of the service fragmentation in a new dress. This situation may still hold in smaller offices. The government has published guidelines on what Ohjaamos should be, how they should work and what services they should offer and it provides coordination and training services for Ohjaamos to help them change their working culture.

Another challenge is heterogeneity across the country. There were 40 Ohjaamos in place in late 2016; by late 2018, their number has increased to around 55-60. In other words, they are covering a larger and larger part of the country but still not all of the population. Existing Ohjaamos vary significantly in size, service portfolios and staff resources. Around 75% of them offer youth outreach work. PES specialists are also available in three of four centres, municipal social and youth work in less than half, and KELA representatives in no more than 15% of them. Health and mental health services are available in around one in four Ohjaamos and study counselling and housing services in around 30% (Figure 3.11). Moreover, many services, including the key services, are only available once or a few days a week, especially in more recently opened centres. Consequently, what help and advice a young person can receive depends on the region or

municipality he or she lives in. Geographical inequalities and rural-urban differences are therefore likely to be immense. Online services are currently developed to serve young people living in remote areas where Ohjaamos are unavailable or not offering a sufficient set of services.

Figure 3.11. The range of services offered in Finland’s Ohjaamo centres is very diverse

Share of One-Stop Youth Guidance Centres (Ohjaamos) offering various types of services, early/late 2018



Source: Määttä (2018) and Ministry of Economic Affairs and Employment.

The third challenge, closely related to both the functionality and heterogeneity of services, is funding. While the government spends EUR 60 million on the Youth Guarantee every year¹³ to improve access to and the quality of all kinds of services, the Ohjaamos receive limited funds (funding is secured until 2021). The endowment of a particular Ohjaamo will depend more on local interest and circumstances. In 2018, total Ohjaamo staff was approximately 350-person years or seven person-years per centre (around 40 of these person-years are supplied by the PES). Data records for 2017 suggest face-to-face services in Ohjaamos were used by young people nearly 120 000 times (Määttä, 2018^[46]); these numbers would correspond to around 2 400 visits per centre and 340 visits per full-time caseworker per year.¹⁴ Over half of those visits were for group meetings. There are also other users who receive guidance and advice by phone, email and online. In addition, Ohjaamos also provide guidance to parents, guardians and other people involved with the young person, face-to-face or through other means. About 35% of all requests concern employment, 23% are about training and 10% involve health and wellbeing issues.

To provide a level-playing field for youth in all parts of Finland, it will be critical to ensure that: i) all youth have access to an Ohjaamo; ii) all Ohjaamos offer a minimum set of services for a minimum amount of time; and iii) Ohjaamos receive the funding needed to implement and maintain that service at the necessary quality. It also means the role and duties of the Ohjaamos will have to be clarified and the question be answered whether they shall be more than an interface or a platform for the multitude of actors available in Finland to support youth. The strong need for integrated multi-agency services and certain gaps in the availability of services in Finland, especially health and social services, suggests a broader and growing role for Ohjaamos in the coming years.

Systematic evidence on outcomes from services provided by Ohjaamos are not available. Surveys among users reveal a relatively high level of satisfaction. For instance, over 80% of all customers say their plans for the future are clearer and their confidence in finding a job or study place has increased. Results are almost equally good for customers satisfied with their life and those who are not. Indicative transition data from a small number of Ohjaamos compiled in 2017 suggest that 22% of all transitions are into employment in the open labour market, 43% started some type of work, 32% started or applied for training of some type, 18% had transitions indicating some health issues, and 7% found a place to live (Määttä, 2018^[46]). These transition data, however, are neither complete nor representative and do not, for example, include any information on the number of people not making any successful transition. Systematic outcome and transition data collection will be critical.

Ways to overcome the challenges the Ohjaamos are facing must start with the funding question. To be functional and efficient, Ohjaamos not only need funding sustainability but also a joint budget and a common management with considerable discretion and decision power. If responsibilities of Ohjaamos continue to increase, it will be of utmost importance that one-stop guidance centres are available everywhere for everyone. Ohjaamos have great potential because they are low-threshold institutions where young people can get (walk-in) help without an appointment and without any formal registration. As a result, monitoring outcomes and following-up on service users is difficult, however. Measuring success will therefore require synthesising and linking register data. A first quantitative evaluation of the effectiveness of Ohjaamo services will become available in 2019.

3.7. Making the most of the forthcoming regional government reform

At the same time as Finland must work towards well-integrated benefits and well-integrated services, for youth and more generally, the country was preparing a major administrative and regional government reform, which intended to reshuffle and reshape the institutional landscape. As part of that reform, which came to a temporary halt with the resignation of the Finnish government in early 2019, a major change was planned in the provision of health and social services.¹⁵ It will be up to the next government to decide whether the reform will be implemented and in what form.

This so-called SOTE reform¹⁶ would have changed responsibilities, service organisation and funding mechanisms and thus affected policy implementation and outcomes in many different ways. This section argues that any change in the way health and social services are delivered must ensure to close existing service gaps and overcome continuing silo approaches, to improve social and employment outcomes for young people.

3.7.1. The SOTE reform in brief

In brief, the SOTE reform intended to transfer the responsibility for public social and health services as of January 2021 from 190 municipal and joint municipal authorities to 18 newly created autonomous counties.¹⁷ Counties would have become responsible for all tax-financed health and social services, such as healthcare, hospital services, dental care, mental health and substance abuse services, maternity and child health services, social work, child protection, services for persons with disabilities, housing services, home care and rehabilitation. Employment services have been restructured and re-regionalised a few years ago already but would have been affected again by the regional government reform as the 18 counties would have taken over the responsibilities of the regional and local employment entities, the regional ELY centres and the local TE offices.

The main aim of the SOTE reform's regionalisation of services was to ensure that people received the same or at least comparable type and quality of support throughout the country, and to address current concerns about inequality in access to services across Finland and service inefficiency. The state would have primary responsibility for financing the counties (which would not be allowed to levy taxes, contrary to the municipalities), with the aim to curb the increase in total government spending through expected efficiency gains resulting from the use of bigger operating entities with better resource capacity.

The implications of the reform would be considerable, for those seeking services as much as for those providing them. Counties would make autonomous decisions on the use of funds but with more central government steering than is currently the case. Services would be organised by the county and provided by public, private or NGO entities, including the county itself. Counties would also become responsible for ensuring that their residents have access to sufficient information. The reform would go hand-in-hand with various other changes:

- The integration of services, especially between health and social services, would improve at all levels and with a strong client orientation.
- Multi-channel financing of health and social services would become easier.
- People would have more freedom of choice, through the creation and promotion of a (private) market for health and social services.

- The use of digital services would increase and the flow of information between service providers would improve.

3.7.2. Criticism to the SOTE reform plans

Inequalities in Finland's public healthcare system are beyond question (OECD, 2015^[47]). However, experts have criticised the heavy reliance on private providers foreseen in the reform (fearing a private monopoly of multinational corporations) and an unclear administrative structure (Kalliomaa-Puha and Kangas, 2016^[48]). Other criticism concerned the large number of counties that are too small for an effective pooling of risks, the dominance on healthcare in the reform discussions, and the possibility that the private service market would leave the high-risk population to the public sector (Kangas and Kalliomaa-Puha, 2018^[49]).

A study prepared for the government looking at redistribution of power and responsibility resulting from the reform expressed concerns about a risk that the new county structure could reinforce territorialism and increase rather than reduce regional differentiation in access to services and their outcomes (Antikainen et al., 2017^[50]). Overall, bringing more responsibilities under one roof – i.e. under the control of the counties – should make it easier to provide integrated service solutions but the interface between the municipalities and the counties will also be critical for both clients and cost effectiveness. The study also looked at the link between the forthcoming administrative reform and the 2013 reform of the PES through which various employment tasks were re-regionalised or re-centralised. From 2021 onwards, counties would also be responsible for employment matters, implying in some cases a decentralisation of certain recently centralised tasks, with a risk of reducing efficiency and jeopardising cost containment.

It is difficult to judge the feasibility of the reform's objectives and to anticipate the degree of enforcement and implementation of different elements of that reform. Repeated delays in the various steps of the decision process – partly because the parliament had rejected initial proposals for the reform as unconstitutional – have also changed the momentum in a way that makes it difficult to predict in what form the reform could eventually pass, provided the reform process continues. In any case, various important elements of any such reform, including the exact way in which the system would compensate providers for the provision of health and social services, would yet have to be settled.¹⁸

3.7.3. Repercussions of the SOTE reform for youth and youth services

The SOTE reform would not have a particular youth focus, but the changes in the institutional landscape and decision structures and powers would have considerable implications for youth services and for recent and ongoing developments in the youth area. The role of various entities would change or responsibility be taken over by others. These changes would also affect the six Regional State Administrative Agencies, which have a considerable regional executive, steering and supervisory role, also in the youth area. More particular, their role includes the development of workshop activities for young people and hobby activities for children and youth, support for multi-sectoral cooperation between local authorities, outreach youth work and counselling services, among others. The coming years will show how this role will be executed in the future. The large number of counties would mean that all hitherto regional tasks would actually go through a process of decentralisation, from currently six units to 18 units, rather than concentration. It would be important to ensure that such a shift would not conflict with

the aim to improve equality in access and availability of services as well as spending efficiency.

One big question is how the SOTE reform would affect recent developments in the youth area and how the reform could promote rather than hinder those developments. The most important development in the youth field in Finland in the past few years was the creation and expansion of the Ohjaamo centres, as one-stop-shop entities that guide youth through a rich but also complex and confusing system of services and benefits. Put differently, these centres are an attempt to overcome an otherwise highly fragmented system of services and benefits that is impossible to navigate, especially for disadvantaged youth. Ohjaamos are still far away from best practice because they differ hugely across the country – from good practice to merely a drop in the ocean – and are not available everywhere and for everyone. However, they are an important achievement and if expanded in a way that addresses the remaining weaknesses (see above), Ohjaamos have the potential to connect young people quickly, and with no particular entrance requirements, to the services they need.

With the SOTE reform, the future of the Ohjaamos would become highly uncertain, financially and administratively. Ohjaamos are a local initiative nourished and resourced by local stakeholders. Counties would have to find a way and be given the right incentives to maintain that service structure and to expand it further, to ensure that everyone in the region can benefit equally. In the past, the expansion of Ohjaamo centres across Finland was possible with considerable funding from the EU, through its Youth Employment Initiative. This funding stream will dry out, at the same time as Finland will need to multiply the resources to make sure that one-stop-shop counselling services are available everywhere and each of them resourced sufficiently to offer the full set of expertise needed to support young people.¹⁹ It will be a challenge to achieve the necessary increase in funding when everything else is changed and responsibilities moved from local to county level. The challenge would be twofold because not only was there a risk that within-county differentials would remain but also that cross-county variation – in type, availability and outcomes of services – would remain and increase. Geographical mobility has always been low in Finland and would be unable to neutralise regional disadvantages.

Finally, there is also considerable uncertainty about the impact of the SOTE reform on youth, social and employment services because of the new focus on freedom of choice for the client and the creation of a (competitive) service market. The discussions around this issue have so far focussed on health services and the healthcare market only, a market in which private actors are already present. Presumably, however, the developments could be similar in the youth, social and employment service-provider markets. Even one-stop-shop counselling services could be run by different and competing entities (public and/or private and/or NGO). Finland has limited experience in creating and fostering markets for services but can draw on experiences from other OECD countries, especially Australia which has outsourced all of its employment services but also youth outreach and youth mental health services (OECD, 2016^[51]). These experiences show that private providers are well able to provide employment and other services if the market is well regulated and supervised and market failures addressed forcefully. Experiences from these countries, however, also show that bringing competition into the service market, with the aim to drive costs down, is difficult. The Finnish discussion around these questions is still pending.

3.7.4. *Aligning the SOTE reform with benefit reforms*

Key stakeholders in Finland are well aware of the need for reforms to streamline benefits and reduce the disincentives to work that the benefit system creates. However, little is happening in this regard partly because the SOTE reform was overshadowing all attention and consuming all reform capacity. This situation is problematic, not only because benefit reform itself should also be a priority but because the SOTE reform could further complicate benefit reform if it further disconnects rather than unites the provision of services and the operation of benefits.

Countries across the OECD have embraced the critical importance of strong activation of jobseekers and other benefit claimants for a functional social protection system, including regular counselling meetings with those people, significant job-search and participation requirements in line with people's work capacities, and strong enforcement regulations. Reflecting the recognition of the importance of activation and to facilitate activation, many countries have made efforts to bring benefit authorities and employment services closer together, in extreme cases even merging them into one institution. Finland's system is weak in activating jobseekers and benefit claimants, as discussed above, and strengthening activation will be critical. The SOTE reform, however, could be a major barrier to improving activation and bringing benefit procedures and employment services closer together. To the contrary, the SOTE reform would freeze the current disconnection between these two sides of the same coin: employment services would become a county matter and benefit operations would remain a national matter. Turning the SOTE reform to success would consume major resources and the energies of many stakeholders, leaving no space for any efforts to bring KELA and the PES closer together. These circumstances could be very problematic.

Finland will have to seek alternative ways to improve the functioning of its welfare system, in line with and complementing any future SOTE reform. One problem with the possible future setup is that the new counties would lack the financial incentives to invest in effective and high-quality services, while having an intrinsic interest to shift harder-to-place clients onto (permanent) social benefits – thereby reducing their own task and costs at the expense of the national administration.

Denmark can serve as an example for Finland for both what is likely to happen under such circumstances and how to improve the situation. The Danish municipalities are in charge of the entire employment and benefit system. Initially, the costs of benefits were (almost fully) reimbursed to the municipality by the national administration – a rather unhealthy financial setup, which unsurprisingly has led to an increase in benefit caseloads and an underinvestment in efforts to help disadvantaged groups into employment. The same could happen in Finland, with considerable negative impact on NEETs and other youth with labour market disadvantage or barriers. Subsequently, Denmark made multiple efforts to rectify the incentives of municipal actors, by encouraging them to invest in activation and rehabilitation while making it increasingly costly for the municipality to shift clients onto long-term benefits. Yet again, it was not an easy process and evidence is clear that municipalities in Denmark used any possible loophole in the system – as long as loopholes existed – to escape their costs, irrespective of the overall outcome for their constituents. Ultimately, the system became very rigorous and today, longer-term benefit receipt is by far the most costly option for a Danish municipality, an option every municipal authority would prefer to avoid (OECD, 2016_[52]). Early intervention and sufficient investment in (re)integration supports is the best way to achieve this.

Learning from the Danish experience, Finland will have to design its new system and the corresponding funding mechanism in a way that ensures sufficient investment by the new counties in prevention and early intervention services, to achieve good labour market outcomes and prevent rising benefit caseloads. These conditions are particularly important for youth and young adults who suffer for a long time from lacking early intervention and who generate high benefit costs if not supported promptly. As counties in Finland cannot collect their own taxes, funding mechanisms have to mimic a situation in which county actors have the same incentives and interests as the national authorities.

There is also a second and related lesson that Finland can learn and adopt from Denmark. Making actions taken and outcomes achieved at the county level fully transparent is a good way to make municipal efforts, successes and failures visible. Denmark has a constantly updated online database that is publicly available to everyone which allows identifying detailed outcomes on the municipal level (OECD, 2013^[53]). This database supports the national administration in its guidance and supervision function and facilitates a process of cross-municipal learning, to ensure good municipal practices spread around the country.

Round up and recommendations

Finland is making considerable investments in social benefits that provide youth with stable income and in services that help them complete meaningful education, address social and health problems, and access employment. Support also targets and reaches disadvantaged youth. Finland's activities in this field did not go unnoticed: the country's Youth Guarantee, a first version of which was introduced in 1996, with a series of reforms since to strengthen its impact, was the blueprint for the Youth Employment Initiative of the European Union.

Overall social and labour market outcomes for young people in Finland, however, do not fully reflect the size of the investments made: youth poverty and youth unemployment rates are high. Youth outcomes relate to the way in which the country operates benefits and provides services. First, benefits are fragmented but also quite generous and accessible, thus creating considerable disincentives to work, at least for some groups of youth. Second, activation of those who receive benefits is very lenient in an international comparison. Third, services are fragmented and often provided in isolation and silos, which contributes to a lower-than-possible degree of effectiveness. In addition, assessing the effectiveness of services is not standard. Fourth, benefits and services are not well connected. Consequently, navigating the system of benefits and services is difficult for youth.

The coming years will be critical for Finland. The regional government reform is a major undertaking aimed to eliminate inequalities across the country in the availability and accessibility of social, health and employment services. The government must make every effort to use the momentum of any such reform to overcome existing barriers between those services and the current disconnection between benefits and services. The challenge is considerable, for two reasons: On the one hand, the regional government reform will bind considerable financial and personal resources, as all stakeholders will be busy for many years with the successful implementation of the reform. On the other hand, the many remaining challenges for services and benefits have not been a target for the reform but they will have to be a priority to avoid making things worse, for youth but also more generally.

Responding to the fragmentation of the benefit system

The large number of different benefits youth in Finland can access and the different rules regulating benefit eligibility and benefit levels are problematic, for a number of reasons. The design of the social protection system leads to high benefit receipt rates among youth, considerable benefit dependency, and substantial and highly variable disincentives to work.

- *Consider streamlining of the benefit system.* The complex and fragmented benefit system is difficult to navigate but also allows people to stay in the system for a long time, possibly by moving between different payments. A more streamlined system with fewer benefits to choose from would address both of these issues and a single working-age payment, as proposed in previous OECD work, would be the best option for the future.
- *Remove disincentives to work.* Benefit traps and benefit dependency are the result of the design of the various payments. Removing these traps and making work pay for every young person, including those with lower skills and thus poorer earnings potential, is paramount. Work incentives should also be equally strong, irrespective of the type of benefit one receives. Improving the situation will require changes in benefit levels and/or in-work payments and/or phase-out ranges to reduce marginal tax rates for those starting work.
- *Improve the activation of benefit recipients.* For a benefit system as generous and accessible as Finland's, strong activation is essential to ensure young people actively engage in further education and rehabilitation and, if possible, seek work. The degree of activation must be stronger on all types of payments – including through clear participation requirements for those receiving benefits, strong monitoring of the compliance with those requirements, and clear and significant sanctions in case of non-compliance. It is also important that all benefits in place use a similar and comparably strong activation framework.
- *Revisit the Child Home Care Allowance.* This special benefit creates inactivity traps for disadvantaged mothers, with long-term consequences on the level of education and skills they achieve and, in turn, their employment and income trajectories.

Strengthening the provision of integrated services

The range of services available for youth in Finland is considerable. However, too often different service offers operate in isolation with limited links to other services. This is not good enough because a large number of young people face multiple problems. Integrated services that address a range of needs concurrently rather than one by one are the exception, not the norm. Such integrated services are especially important for the most disadvantaged and for less mature young people who are pushed into quasi-independence early in life, often far away from their hometown, by an education system that stimulates and a benefit system that facilitates leaving the parental home.

- *Make the most of the Youth or Community Guarantee.* Comparative analysis shows that Finland's Youth Guarantee is very successful in reaching young people in need, especially NEETs, but much less successful in achieving employment outcomes for them. First, it is important to identify the needs of young people quickly by ensuring Ohjaamo guidance centres are available for

everyone and equipped with a full range of services and, thus, able to refer people quickly to any possible service they might need. Second, the share of young people under age 30 referred to an active labour market measure can be increased. At 32% in any year, this share is surprisingly low in view of the strong youth focus of the PES.

- *Improve the effectiveness of PES programmes.* Finland invests considerable amounts in its active labour market programmes but subsequent employment outcomes are relatively low, e.g. six months after participation in a PES measure only about 20% are in employment. The PES can take several steps to improve employment outcomes of its services for the youth population. These steps include: i) engaging with schools to help in the transition to higher education, vocational education or employment; ii) putting more emphasis on assessing the skills of jobseekers and recognising any prior learning; iii) using information on previous PES experience in the profiling process; and iv) following-up on those leaving the service and providing (in-work) follow-up support as necessary.
- *Invest in evaluating available programmes and new initiatives.* Finland must also do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities, including the employment and training measures of the PES but also the rehabilitation measures of KELA, the social services provided by the municipalities and the guidance services provided by the Ohjaamo centres. Good evaluations are critical to promote evidence-based policy-making. On this aspect, Finland could learn from the United States where the laws providing funding for a particular programme include requirements for programme performance tracking and impact evaluation.
- *Build on the 2015 act on multi-sectoral joint service.* The 2015 act, which transformed the previous LAFOS units into a permanent network bringing together a range of municipal, PES and KELA services, was Finland's biggest step towards the provision of joint and fully integrated services organised around a multi-sectoral employment plan. It will be important to implement and monitor this change rigorously, as it should be the basis and a model for the provision of fully integrated services to all people facing multiple problems. Lessons from KELA's recent initiatives should be incorporated into the multi-sectoral joint service. It will also be important to ensure a strong link with the Ohjaamo youth guidance centres.
- *Provide mental health training to caseworkers.* Mental health issues, often undiagnosed, are widespread among the youth population and a considerable barrier to better education and employment outcomes. Mental health is a complex challenge: on the one hand, too often mental health problems remain uncovered while, on the other hand, work capacity of those with a diagnosed mental health issue is often underestimated. Caseworkers from all public authorities (KELA, PES, new LAFOS, Ohjaamos, municipal social services) need better mental health training to be able to recognise problems and refer their clients quickly to the right types of supports and services. Accordingly, mental health should also become a category in the profiling tool used by the PES, e.g. by using validated survey instruments that identify a person's mental health status in an indirect manner.

Using the government reform as a vehicle to address remaining challenges

The SOTE reform would have major repercussions on institutional aspects that are not part of the reform itself. First, there is a need to strengthen the connection between benefits and employment services, i.e. to better connect KELA and the PES. The current disconnection is particularly problematic for young people with multiple needs who have to approach a multitude of authorities to get all the help they need. Second, there is a need to connect and integrate various types of services. The SOTE reform is not making these challenges easier.

- *Align the SOTE reform with benefit reform.* The SOTE reform would have reinforced the disconnection between benefits (a national matter) and employment and other services (a regional matter). To make this setup functional and effective, underlying funding mechanisms must ensure sufficient investment by the counties in prevention and early intervention services, to avert benefit claims and benefit dependency. Sharing county actions and outcomes openly in a transparent matter would facilitate the diffusion of good practices at the county level. For both issues, better administrative incentives and higher transparency, Finland should look into developments in Denmark over the past decade. In addition, links between KELA and the PES must be stronger through mutual follow-up of shared clients and by involving both institutions in the activation framework. This is particularly important for social assistance clients.
- *Increase the resources and impact of the Ohjaamo centres.* Ohjaamos are critical entities guiding young people through a fragmented system of services and benefits. There is a need to expand Ohjaamo resources to ensure such one-stop-guidance centres are available for all young people across Finland and offering the full range of services needed to support them (including outreach workers, employment specialists, mental health professionals, social workers, housing experts, financial expertise and benefit knowhow). With the SOTE reform, the position and location of the Ohjaamo centres could come under pressure. Counties must have the resources and incentives to maintain and expand this guidance structure, to prevent rising within- and cross-county inequalities in access to services.
- *Invest in monitoring and evaluating policy reforms.* In many ways, the SOTE reform would dive into new territory. The reform of the PES in 2013, which transferred the responsibility for employment services from the local to the regional level, was a precursor of the SOTE reform. Both reforms aim at increasing service efficiency and harmonising service availability and quality across the country. Monitoring, evaluating and fully understanding the implementation and impact of the PES reform is critical as a learning experience for a successful realisation of any SOTE reform.
- *Study other countries' experiences with the outsourcing of public services.* As part of the SOTE reform, Finland aimed to generate a transparent, competitive market for health, social and employment services, to improve service efficiency and introduce user choice. Such change would be a major undertaking in itself, with considerable potential but also risks. Finland should consider doing this transition in steps, starting with the administrative changes while carefully studying how other countries managed to outsource public services. Australia in particular has considerable experience in outsourcing of various services,

including youth outreach services, youth mental health services and employment services.

Notes

- ¹ The earned income must also have amounted to a minimum of EUR 1 189 per month.
- ² Unemployed jobseekers covered through the earnings-related allowance receive 45% of the difference between their daily wage and the amount of the basic allowance. If their monthly income exceeds the income limit (set at EUR 3 078 in 2018), the earnings-related allowance is equivalent to 20% of the amount that exceeds this limit.
- ³ In Finland, the usual expression is *disability pension* but the OECD systematically uses the term disability benefit when referring to income-replacement benefits related to a person's work capacity (OECD, 2010^[24]). The terms *disability allowance* and *care allowance* denote additional payments in Finland designed to cover the extra costs caused by a person's disability.
- ⁴ Youth aged 18 and over living with their parents are independently eligible for social assistance, in which case the allowance amounts to EUR 356 per month.
- ⁵ The annual income limit depends on the number of months for which a person receives financial aid: it is EUR 667 for any month in which aid is received and EUR 1 990 for each aid-free month.
- ⁶ The exempt amount is approximately EUR 667 per each month for which a student receives study grants and housing allowance.
- ⁷ The figure of 4.65% ensures that the reduction is equivalent to two days of benefit payment. To compensate for this potential loss in total benefit payment, the waiting period for an unemployment benefit entitlement is now only five days rather than seven days prior to the reform.
- ⁸ In 2018, the PES in Finland gave over 112 000 sanctions for jobseekers who failed to follow their employment plan. As sanctions normally are for a period of 30-90 days, more pronounced sanctions could have considerable potential to change people's (job-search etc.) behaviour noticeably.
- ⁹ Municipalities can top up entitlements with supplementary assistance (to cover expenses arising from special needs) or preventive assistance (to prevent exclusion caused e.g. by over-indebtedness).
- ¹⁰ LAFOS are not formally independent organisations but units based on local, rather informal, co-operation contracts between the partners, and they act under management jointly defined by them (Aho and Koponen, 2007^[59]). Accordingly, operations may differ from centre to centre.
- ¹¹ The implementation performance is, in fact, better in Finland than it is on average in the EU because the Finnish data refer to three months after registration, not four months. This is because Finland has committed itself to delivering a service to its youth population within three months.
- ¹² Finland is by no means in a unique position. For instance, Eichhorst and Rinne (2015^[56]) conclude that close to three in four of the more than 750 projects from 90 countries summarised in the Youth Employment Inventory lack enough evidence to make an assessment on their effectiveness. For more information on the inventory, see <http://www.youth-employment-inventory.org/>.
- ¹³ The largest part of the Youth Guarantee funding comes from the European Social Fund, topped up by central government funding and funding provided by the participating service providers such as KELA or the PES. The total cost of the three-year skills programme was EUR 79 million; this was in addition to the annual spending of EUR 60 million.
- ¹⁴ Data on the characteristics of service users are not available. Interestingly, the number of NEETs in Finland in the age group 15-29 is exactly 120 000 while the number of socially excluded young persons is estimated at 40 000. The number of NEETs who receive social assistance is also 40 000.

¹⁵ With the resignation of the government, the reform process came to a halt. At this moment, the fate of the reform remains an open question; it will be up to the next government to decide whether the reform work will continue and how the work done so far will be used. However, most actors would agree that a reform of social welfare and health care services is needed and the authors of this report assume the discussion will resume soon. This report discusses the institutional settings and the reform plans as of late 2018; all assessments and recommendations therefore refer to what was planned back then.

¹⁶ The acronym SOTE combines the Finnish words for social (SOsiaalinen) and health (Terveystieteet).

¹⁷ Discussions on the implications on service quality of the small size of Finnish municipalities (the current median population size is below 5 000 inhabitants) have been ongoing for many years. Finland currently has 311 municipalities; between 2005 and 2017, the number fell from 444 to 311, through a series of voluntary mergers, which often involved more than two municipalities.

¹⁸ The details of the compensation model are critical for the success of the reform in terms of equal access to services and cost efficiency as well as to prevent adverse selection and cream skimming. The plan was that providers would have to accept all clients in their area and receive risk-adjusted capitation payments taking into consideration age, gender and morbidity. The details of the payment model will determine the provider's incentives to stay in the market and to transfer clients (and thus costs) to other service providers, such as e.g. (expensive) public hospitals. With the reform, providers would be able to exit the market with an advance notice of six months and, similarly, clients would be able to change the provider every six months.

¹⁹ The challenge to maintain and step up funding for Youth Guarantee initiatives is not unique to Finland but a challenge that all European countries are facing (Escudero and Mourelo, 2017_[58]).

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