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Research Update:

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

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Overview

- We consider that Tyottomyysvakuutusrahasto (TVR) has an almost certain likelihood of receiving extraordinary support from Finland's government, if needed, and consequently equalize our ratings on TVR with those on Finland.
- We assess the link between TVR and Finland as integral and TVR's public policy role as critical, although the government does not provide a general guarantee for all TVR's liabilities.
- We are affirming our 'AA+/A-1+' ratings on TVR.
- The negative outlook on TVR reflects that on Finland.

Rating Action

On May 10, 2016, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Finland-based Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund (TVR). The outlook is negative.

Rationale

We equalize our ratings on Finland's unemployment benefit agency TVR with the ratings on Finland (AA+/Negative/A-1+). This reflects our expectation of an almost certain likelihood that the Finnish government would provide timely and sufficient extraordinary support to TVR in the event of financial distress. Because we believe the almost certain likelihood of extraordinary government support will endure, and that TVR is a nonseverable arm of government, we do not assess TVR on a stand-alone basis.

In accordance with our criteria for rating government-related entities (GREs), we base our assessment of an almost certain likelihood of government support on TVR's:

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

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

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

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

In addition, TVR's critical role for the government is underlined by its execution of a core responsibility for the central government, which is ultimately responsible for the unemployment schemes and determines TVR's functions and funding sources.

As the cornerstone of the Finnish unemployment scheme, TVR already benefits from strong ongoing government support. This comes primarily through its unique status within the Finnish welfare system and its legal monopoly in the area of compulsory earnings-related unemployment benefits, which allows it to propose insurance premiums to the Ministry of Social Affairs and Health. Also, TVR is authorized to maintain financial buffers, has the authority to take external loans, and benefits from government guarantees on certain debt obligations. Furthermore, we believe that if TVR needed extraordinary financial assistance, the government would take preemptive actions and provide adequate and timely support. On a few previous occasions, the Finnish government, without any preceding request from TVR, granted extra funds to TVR's budget, via the Ministry of Finance, to manage higher benefit payments during periods of very high unemployment. In doing so, it relieved TVR from having to propose hefty premium increases.

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

According to its investment principles, TVR is required to invest an amount equaling one month's expenses (about €300 million) in liquid money market instruments maturing in less than a year. At the end of 2015, TVR's investments and other financial assets amounted to €604 million (€498 million in 2014). In addition, TVR has the Finnish FSA's permission to borrow to secure its liquidity. TVR covers its funding needs through a €300 million commercial paper program, a €300 million revolving credit facility, and a €700 million state-guaranteed revolving bank facility. TVR issued €900 million in bonds in 2015 and plans moderate additional loan funding in 2016. By the end of 2015, TVR's total borrowings amounted to €1.11 billion compared with €267 million in 2014. Overall, TVR benefits from strong access to loans and capital market funding, and in 2015 the European Central Bank accepted the company as an issuer under its Public Sector Purchase Program.

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

In 2015, TVR's performance remained weak, and it reported a loss of €677 million, which was a larger shortfall than budgeted, after a €672 million loss in 2014. Consequently, the deficit in the business-cycle buffer widened to €686 million from €11 million in 2014. Still, the deficit is comfortably within the statutory limit for the buffer fund, which allows a surplus or deficit of €1.52 billion at the end of the year.

Looking ahead, the level of unemployment insurance contributions has increased by 0.5% for 2016, in line with TVR's proposal to the Ministry of Social Affairs and Health. Nevertheless, TVR has a somewhat more conservative view of developments in the employment market this year.

Finland's social partners have recently proposed changes in the legislation regulating financing of unemployment benefits, as part of their Competitiveness Pact. The proposals affect TVR's operations to certain extent and could have an impact on premium inflows and contribution outflows. That said, we don't expect fundamental changes to TVR's flexibility in managing its responsibilities or to the various forms of ongoing and extraordinary government support it receives.

Outlook

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

Related Criteria And Research

Related Criteria

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

Related Research

- Finland Ratings Affirmed At 'AA+/A-1+'; Outlook Remains Negative - March 18, 2016
- Tyottomyysvakuutusrahasto, The Unemployment Insurance Fund - June 12, 2015

Ratings List

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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