Conclusions and recommendations of the National Audit Office

The state pension scheme and central government liabilities in other pension schemes

The audit was targeted at the state pension scheme and central government liabilities in other pension schemes. Pensions are a significant annual expenditure item in view of central government finances: in 2021, they totalled around EUR 10.2 billion.

The state pension scheme covers central government employees’ pension security, which is financed entirely by the central government. In addition, the central government fully finances the pensions paid by the Social Insurance Institution of Finland (Kela), such as the national pension and guarantee pension, and contributes to financing the pensions for the self-employed (YEL), the pensions for agricultural entrepreneurs (MYEL), and the seafarers’ pensions (MEL). The state's commitment to different pension schemes will cause considerable expenses for the central government in the future, and thus it constitutes a significant financial liability.

The audit examined whether the pensions financed by the central government in part or in full are managed and overseen appropriately. In addition, the audit examined whether the final central government accounts provide true and fair information on the pensions for which the central government is liable.

The pensions for which the central government is liable are managed and overseen appropriately

The audit examined the management and oversight of the state pension security. Based on the audit, it can be concluded that the state pension security is managed and overseen in accordance with laws and regulations.

The responsibility for the management of the state pension scheme has been divided between the Ministry of Finance, the State Pension Fund of Finland (VER), and the pension institution Keva. Keva collects pension contributions from the employers covered by the state pension security and transfers them to VER, which is responsible for safeguarding the funds by investing them productively.

State pensions are paid from the state budget. Some of the central government's annual state pension payments are covered by an amount transferred from VER, which according to the current legislation is 40% of the state's annual pension expenditure. The Ministry of Finance transfers the funds needed for pension payments monthly to Keva, which pays the pensions to the recipients.

The organization of the state pension security and the investment activities related to pensions are overseen by the Ministry of Finance and the Financial Supervisory Authority (FIN-FSA). The overall operations and legality of Keva and

VER are overseen by the Ministry of Finance. The supervision by the FIN-FSA is based on safeguarding the pensioners' interests and is largely targeted at the investment activities.

The state also contributes to the financing of, for example, the pensions for agricultural entrepreneurs (MYEL), the pensions for the self-employed (YEL), and the seafarers' pensions (MEL). In relation to these pension schemes, the audit examined the calculation grounds of the state's contribution. Pension institutions apply for financing from the state budget annually from the Ministry of Social Affairs and Health, which confirms the contributions and also participates in the steering of the pension institutions. Based on the audit, the National Audit Office concludes that the state's contribution is based on reliable calculations and examinations.

The pension liability reported in the final central government accounts provides true and fair information on state pensions

In accordance with the norms applied to the preparation of the final central government accounts, the pension liability arising from the state pension security is reported in a note to the final central government accounts. The amount of pension liability in the final accounts for 2020 was EUR 93.1 billion. Pension liability describes the capital value of the pensions accrued within the state pension security at the time of the final accounts.

The amount and present value of the pension liability are essentially affected by the discount rate used in the calculation: 2.7% in the final central government accounts for 2020. According to the audit, the discount rate used in the calculation of the state pension liability is at the same level as the one generally used in the calculation of pension liabilities in Finland. However, no separate decision has been made on the discount rate used, and the criterion for determining the discount rate is not fully transparent to the users of the final accounts. The discount rate used affects the reported present value of the pension liability significantly.

Liabilities arising from other pension schemes have not been identified or reported as part of the final central government accounts

The State has a legal and factual liability to contribute to the financing of the pensions for agricultural entrepreneurs, the self-employed, and seafarers, as well as the pensions managed by Kela. The amount of liabilities to be paid by the state in the future under different pension schemes is significant. For example, the state's annual contribution of EUR 0.7 billion to the pensions of agricultural entrepreneurs will total approximately EUR 18 billion in budget expenditure in 2022–2050.

The central government's current financial reporting framework does not impose any explicit obligation to report liabilities under other pension schemes. According to the National Audit Office, the liabilities arising from other pension schemes should be identified and reported as part of the final accounts of the central government and the accounting office concerned. Reporting the liabilities is important not only in view of assessing the financial position but also from the perspective of the knowledge base of decision-making.

The nature of the pension scheme may have an impact on the determination of an off-balance-sheet liability, but in principle the determination of liability does not depend on the nature of the pension scheme. Therefore, the state may incur off-balance-sheet liabilities from both the funding system and the distribution system.

Recommendations of the National Audit Office

1. The National Audit Office recommends that the Ministry of Finance, the State Treasury, and the Ministry of Social Affairs and Health identify the liabilities arising from other pension schemes and report them in the notes to the final accounts of the central government and the accounting office concerned.
2. The National Audit Office recommends that the Ministry of Finance and the State Treasury take measures to add provisions on including liabilities arising from different pension acts in the final accounts to the guidelines for the preparation of the final accounts of the central government and accounting offices.
3. The National Audit Office recommends that the Ministry of Finance take measures to determine, by decision, the calculation grounds of the central government pension liability and the discount rate used in the calculation. The decision should include adequate and appropriate justification for the determination of the discount rate.