Economic activities of the Estonian Unemployment Insurance Fund

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Executive Summary

The Estonian Unemployment Insurance Fund (hereinafter Unemployment Insurance Fund) is a legal person in public law established under the Unemployment Insurance Act whose objective is to pay unemployment insurance benefits, benefits upon collective termination of employment contracts and benefits upon insolvency of employer pursuant to the procedure established in the Unemployment Insurance Act and other legislation. The financial resources of the Unemployment Insurance Fund are comprised of the sums received from unemployment insurance premiums and the income received from investment thereof. Benefits paid in the year 2003 amounted to 202.6 million kroons.

Main findings

Creation of a database

The Unemployment Insurance Act obliges the Unemployment Insurance Fund to establish an unemployment insurance database containing personal data of insured persons, data concerning the unemployment insurance premiums paid by them, as well as the insurance periods of these persons and data concerning the grant and payment of benefits. The audit revealed that in the creation of the unemployment insurance database the Unemployment Insurance Act has not been fully complied with. Although the Tax and Customs Board is required to submit data to the database concerning the payment of insurance premiums for insured persons, on the basis of which the insurance periods and the average premiums could be calculated and the data submitted by employers could be verified, this has not been done.

Use of data submitted by employers

Pursuant to the Unemployment Insurance Fund Act, data contained in the unemployment insurance database serve as the basis for ascertaining insurance periods. In the case that data regarding the given month or preceding months have not been entered in the database, information indicated on a certificate issued by the employer is additionally taken into account upon ascertainment of an insurance period. Since the Tax and Customs Board has not submitted data to the Unemployment Insurance Fund concerning insurance periods and the payment of insurance premiums for insured persons on the monthly basis, the Unemployment Insurance Fund has relied only on the data submitted by employers concerning the insurance periods and the remuneration paid to insured persons. It is difficult to verify the correctness of data indicated on these certificates, although the employees of the Unemployment Insurance Fund stated that they have tried to compare the data of employers' certificates with the data of the Tax and Customs Board, taking into account the differences that arise from the accrual basis and cash basis presentation of the data. The State Audit Office compared the calculation of unemployment insurance benefits for 21 persons with the calculation performed on the basis of the data submitted by employers and contained in the database of the Tax and Customs Board. The calculations differed on 18 occasions.

Collection of information from employment offices

In paying benefits, the Unemployment Insurance Fund relies on the data provided by third parties to a substantial extent. For example, employment offices keep records of persons registered as unemployed and receiving unemployment insurance benefits. The records are kept in the register of persons who seek employment and of employment services. However, the audit revealed shortcomings in the work of the register: data entered in the register are not always saved and the fact that an unemployed person has commenced work cannot be entered in a timely manner if the person, even though having recommenced work, continues to participate in training organised by the employment office. Another problem is posed by the circumstance that many unemployed do not inform employment offices of recommencement of work in a timely manner or fail to notify about the recommencement of work at all. Hence, employment offices are unable to deliver information to the Unemployment Insurance Fund for termination of payments, whereas the Unemployment Insurance Fund pays benefits unfoundedly and will later have to reclaim the sums paid. The audit sample comprised four persons who received benefits and income at the same time (the Unemployment Insurance Fund had not ascertained the reasons for such a

situation). The State Audit Office finds that if a person is capable of receiving income while also receiving unemployment benefits, one cannot exclude the risk that the person has submitted incorrect data to the employment office for the sake of being registered as unemployed. In such cases the reasons for receiving income should be ascertained in conjunction with the employment office in order to establish whether the person in question is actually unemployed and entitled to the benefit.

Data of the Tax and Customs Board concerning the distribution of payments between trust funds

When transferring money to the Unemployment Insurance Fund, the Tax and Customs Board has not indicated separate amounts reflecting the unemployment insurance premiums payable by an insured person and by the employer on the payment document, but transferred all payments to the bank account of the Unemployment Insurance Fund, indicating "unemployment insurance premiums" as the payment details. The Tax and Customs Board has also not submitted data concerning the division of calculated and received unemployment insurance premiums on a running basis. The Unemployment Insurance Fund has transferred two-thirds of unemployment insurance premiums received to the unemployment insurance benefit trust fund and one-third to the trust fund for benefits upon collective termination of employment contracts and insolvency of employers. That division is provisional, though. According to the data of the Tax and Customs Board, in 2003 the unemployment insurance benefit trust fund accounted for 65.26% and the trust fund relating to employers accounted for 34.7%. Therefore, the unemployment insurance benefit trust fund fell short of that budgeted by the Unemployment Insurance Fund by 8.06 million kroons, whereas the employers' trust fund exceeded that budgeted by the same amount. Sums transferred to the accounts of trust funds on the basis of the certificate issued by the Tax and Customs Board will be adjusted at the end of the year.

Disclosure of arrears in unemployment insurance premiums

In its reports on economic activities for the years 2002 and 2003, the Unemployment Insurance Fund failed to disclose arrears in unemployment insurance premiums amounting to 6,057,388 kroons and 6,579,768 kroons, respectively. According to the employees of the Unemployment Insurance Fund, the Annual Report was prepared in accordance with the prudence concept and the recommendations of the auditor, because the Fund was not aware of the proportion of uncollectible receivables and bad debts. The Unemployment Insurance Fund does not possess information about indebted companies or about the reasons for arrears. However, the Tax and Customs Board would be able to ascertain the reasons and provide the Unemployment Insurance Fund with information concerning uncollectible tax receivables. This is not being done at present. In the opinion of the State Audit Office, it is incorrect to not disclose arrears in unemployment insurance premiums in reports. The reasons for debts and the likelihood of their collection should have been ascertained, but the Unemployment Insurance Fund has not expressed any interest in doing so.

Administration of reserve capital

The Unemployment Insurance Fund must have the legal reserve amounting to at least 10 percent of the assets of the Unemployment Insurance Fund for the reduction of the risks that macro-economic changes may cause to the unemployment insurance system. According to the agreement, the administrator of the legal reserve, i.e. the Ministry of Finance is required to employ its best efforts to increase the value of the reserve capital and to ensure the preservation and liquidity of the legal reserve funds within the scope of the restrictions established by law and subordinate legislation. The State Audit Office deems such a system inappropriate. As of the end of the year 2003 the result of investment of the legal reserve funds was –4975 kroons, whereas the profitability of investment of the trust funds of the Unemployment Insurance Fund was 3.4%. The audit revealed that the legal reserve funds had been invested in the units of an investment fund in the course of one financial transaction.

Main proposals

Proposals to the Minister of Social Affairs and to the Minister of Finance

- To ensure the creation of the unemployment insurance database to the extent prescribed by law and the submission of the data to the Unemployment Insurance Fund, which are necessary for payment of unemployment insurance benefits.
- To organise the transfer of unemployment insurance premiums to the Unemployment Insurance Fund such that the division of the premiums between payments made by insured persons and by employers is obvious.
- To decide on the manner pursuant to which the Tax and Customs Board would be required to provide the Unemployment Insurance Fund with information about arrears in unemployment insurance premiums.

- In conjunction with the Tax and Customs Board, employment offices, the Labour Inspectorate and the Estonian Health Insurance Fund, to establish an integral control system aiming at preventing acts of fraud and violations in the disbursement of unemployment insurance benefits.

Proposals to the Management Board of the Unemployment Insurance Fund

- To oblige employees of the Unemployment Insurance Fund to regularly examine the data that the Labour Market Board maintains with regard to the unemployment of persons receiving unemployment insurance benefits, and to terminate the disbursement of benefits in the cases of suspension of unemployment which are not sufficiently justified.
- In the case that, according to the information available to the Tax and Customs Board, a person receives remuneration for work while also receiving the unemployment insurance benefit, to ascertain the reasons therefor in conjunction with employment offices and to reclaim the benefit that has been received unlawfully.
- To propose to the Ministry of Finance to specify the agreement on the administration of legal reserve funds by introducing the diversification requirement upon investment of the funds.

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Responses of auditees

The Minister of Social Affairs stated that the work plan of the Ministry for the year 2004 prescribes an analysis of the need for amendment of the Unemployment Insurance Act and the preparation of an Act amending the Unemployment Insurance Act, which would take into account the proposals made by the State Audit Office. The priority of IT development of the Ministry of Social Affairs comprises the development of the register of persons who seek employment and the information system concerning employment services. The concept of labour market measures prescribes that communication as well as the exchange of information and data between the Unemployment Insurance Fund and the Labour Market Board must become more efficient, enabling the organisations to better organise the implementation of active labour market measures and arrange the payment of unemployment benefits.

The Minister of Economic Affairs and Communications in the capacity of the Minister of Finance maintained the earlier position of the Ministry of Finance: since the law requires the Tax and Customs Board to collect and submit to the Unemployment Insurance Fund cash basis data, the Ministry does not deem it reasonable to collect accrual basis data for implementation of unemployment insurance. The Minister added that the volume of the legal reserve was too small (55 million kroons at the end of the year 2003) and that investments always involved risks.

The Management Board and Supervisory Board of the Unemployment Insurance Fund stated that they would be ready to participate in the preparation of amendments to the legislation, as well as in the development and preparation of a control system.

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