

# National Social Insurance – not the whole picture

Supplementary compensation  
in case of loss of income

Gabriella Sjögren Lindquist & Eskil Wadensjö

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# Foreword

The public social insurance schemes are very important for people's security and are in the focus of debate on loss of income in the event of unemployment, illness, occupational injury, old age and parental leave. Regardless of whether discussions concern the incentive to work or the effects of insurances on income distribution, they are usually about the public insurance schemes.

However, there is not just social insurance. There are also supplementary insurance schemes, which affect both incentives and income distribution. The benefits decided upon in agreements between the social partners are the most important, but are not the only ones. These supplementary insurance schemes have previously not attracted much attention and many citizens have scant knowledge about the overall extent and content of the agreements, despite the fact that the benefits linked to the collective agreements cover the great majority of wage-earners.

In this report to the Expert Group on Economic Studies (ESS), PhD Gabriella Sjögren Lindquist and Professor Eskil Wadensjö, both active at the Swedish Institute for Social Research at Stockholm University, provide a general picture of how the agreement-based benefits, other supplementary benefits and social insurance schemes relate to and interact with one another. They underline the necessity of a holistic view of the social security schemes developed by the state and the social partners.

It is thus not reasonable to disregard the agreement-based insurance schemes, if one wishes to know about, and research into, the effects that social security insurance schemes have on the economy. It is the total benefit and not only benefit from the public social insurance scheme that affects the incentives of individuals to make different decisions.

The report presents an overall picture of the state of knowledge in the late spring of 2006. The agreements and benefits described

here change continually. Therefore it is important – as the authors discuss in the concluding chapter – that a public information system is created with details of all of the social security benefits and that this system is subsequently continuously updated. In Sweden, no such public information is available at present.

As is the case for all reports to ESS, the authors are responsible for the contents of the report and for its assessments and conclusions.

Stockholm, September 2006

Levi Svenningsson  
Administrative Director

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# Chapter 1 There are many forms of income compensation

When we discuss and analyse benefits that provide compensation for various types of loss of earnings, interest is as a rule almost entirely focused on the social insurance schemes. However, there are many other forms of benefits that supplement social insurance. The most important of these are those determined by agreements between the social partners but there are also other types of supplementing benefits. The combined payments from the many types of supplementary benefits make up substantial amounts. It is therefore natural to ask why these benefits have not previously attracted very much attention in public debate.

An initial explanation is that they are less comprehensive than social insurance benefits. While this is true, it is hardly a sufficient explanation. The supplementary benefits are an important additional income for many people. They also have a great effect on the replacement rates around which political discussion has often centred.

Another explanation is that decisions to establish and change these supplementary benefits are made in a different way than is the case for social insurance. Social insurance schemes are changed by political decisions, which are often preceded by government committee reports and public debate. Discussion usually continues after the political decisions have been made. The political parties are very committed to these issues and proposed changes to social insurance schemes are often put forward in election campaigns. This contributes to substantial public interest in the social insurance schemes. The other forms of benefits are not introduced and changed in the same way. Decisions are made in negotiations between the social partners or through decisions by employers or trade union organisations. Decisions on occupational benefits are often reached at the same time as wage agreements, and attention is often focused on the wage agreements in reports in the mass media.

A third explanation is that that information is often insufficient or not given the same attention as in the case of social insurance schemes. The organisations provide information in various ways to their members and, to some extent, the general public as well,

although this information is often difficult to spread. Above all, the information is partial – it applies, for instance, only to a particular sphere of collective agreement and not generally. Information on trade union websites about various member and group insurance schemes is often only available to those who belong to the union. It is therefore difficult to make comparisons. It is, for instance, difficult for a person who is thinking about changing to a new job covered by a different collective agreement and trade union, to find out how benefits will change in the event of different types of loss of income.

In this study, we endeavour to provide a more general picture of these other forms of benefits that supplement the social insurance schemes. At the same time, we describe the social insurance schemes in order to provide an overall picture of compensation for different types of loss of income. This will be a picture of the situation in 2005 with an attempt to describe the main features of development up to this date. We also try to compare the outcome of different spheres of collective agreement for a particular cause of payment of income compensation. To prevent this comparison becoming too difficult to overview, we have made the comparison for three different monthly incomes: 15,000, 30,000 and 50,000 Swedish kronor (SEK).<sup>1</sup> We are well aware that not all three levels of income exist in all spheres of collective agreement or are uncommon in one or more spheres. However, we have decided to present the values for these three levels of income for all spheres of collective agreement as an illustration of the features of the different benefit systems.

It should be borne in mind that this type of benefits changes over time and that this review can be out-of-date relatively quickly, in particular at the level of details even if the main features of the different systems remains the same. In the concluding chapter, we emphasise the importance of establishing a system of information about these supplementary benefits and that this information should subsequently be regularly updated.

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<sup>1</sup> Calculations of average income from employment in different deciles made by Statistics Sweden for this study show that it exceeds SEK 360,000 per year (more than SEK 30,000 per month) for men in decile groups eight, nine and ten in central government employment and in decile groups nine and ten in local government and private employment. For women, average income exceeds SEK 360,000 only in the tenth decile group in the different sectors. Average income exceeds SEK 600,000 per year (over SEK 50,000 per month) only in the tenth decile group for men and in none of the decile groups for women.

## 1.1 Different types of benefits

The benefits now often regarded as supplementary benefits have in many cases a longer history than social insurance benefits. Pensions and benefits for illness, occupational injury and unemployment existed before the introduction of the social insurance schemes. To some extent, it can be said that these other forms of benefits were predecessors to the social insurance schemes and they have had an important influence on the design of these schemes.<sup>2</sup> On the other hand, when the social insurance schemes were introduced, they affected the benefits that previously existed to a very great extent. Subsequent changes in social insurance schemes have also led to changes in other forms of benefit. There are then different types of relationships between social insurance and other benefits. We will discuss the historical development in the different chapters of this study and take up the relationships between the different schemes. It is important to note that there are many different forms of benefits that supplement social insurance schemes. In this study, we will take up the most important forms and provide a brief description below of the basic types.

Many of the supplementary benefits came into existence as a result of agreements between the social partners. Agreements can be reached on the introduction of an *agreement-based insurance scheme*, and on payments to be made by the employer – *agreement-based benefit*. An agreement-based insurance means that contributions are paid to an insurance company which then pays benefit when a person is eligible under the rules that apply for the insurance. However, an agreement can also mean that the employer undertakes to pay benefit (or that some other institution pays the amount and the employer pays this institution) when someone is entitled to benefit according to the conditions of the agreement. There are advantages and disadvantages with these alternative arrangements. We will return to this point in the concluding chapter.

Agreements can be entered into at various levels: between central organisations, between bargaining cartels, between national trade unions and employer organisations, and between a local trade

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<sup>2</sup> See Edebalk, Ståhlberg and Wadensjö (1996) and Rein and Wadensjö (1998) for a general discussion of the interaction between social insurance schemes and agreement-based compensation schemes.

union and an employer. Benefits decided upon through agreements of this kind do not only apply for members of the trade union organisations that have signed the agreements but also to others who are covered by the agreement. Individual agreements also exist where the employer, as part of the individual contract of employment, undertakes to purchase insurance cover such as pension insurance for the employee. This type of additional benefit is particularly important for people on high incomes. Closely related to the individual contract of employment are unilateral undertakings by the employer to provide a specified benefit in the event of loss of income.

There are also various forms of *member insurance policies* provided through the trade union organisations. Unlike agreement-based insurances and benefits that cover all employees at a workplace through a collective agreement, member insurance only covers those who belong to the trade union. There are two main types of member insurance policies. One of them covers all members of a trade union or all members of a trade union within a particular area. Insurance of this kind can be called compulsory member insurance. It is financed through the membership fee or through compulsory special fees. The other form of member insurance consists of an offer to members of a trade union to take out an insurance policy, for instance, cover against accidents or supplementary health insurance, which the members can either accept or not. The individuals that join pay an insurance premium. The benefits of an insurance of this kind compared with wholly private insurance may be lower premiums due to economies of scale, less individual assessment and the assistance of the trade union in safeguarding one's rights. Insurance of this kind can be called *voluntary* member insurance or *group insurance*. In addition to these insurance policies, there are wholly private insurances policies – policies that people purchase themselves from an insurance company. This is particularly important in the sphere of pensions and has been encouraged for a long time through tax relief.

## 1.2 Different spheres of agreement

The agreement-based benefits for a particular type of loss of income mostly consist of four spheres of agreement:

1. central government employees,
2. municipal and county council employees,
3. white-collar workers in the private sector, and
4. blue-collar workers in the private sector.

Table 1 shows the number of employees in the different sectors. Not all of those who work in a sector are necessarily covered by agreement-based benefits. It is primarily in the private sector that there are companies which do not have collective agreements or which have taken out agreement-based insurance in another way.

**Table 1.1 Men and women employees according to sector in 2003**

|  | <i>Men</i>       |                 | <i>Women</i>     |                 | <i>All</i>       |                 |
|--|------------------|-----------------|------------------|-----------------|------------------|-----------------|
|  | <i>Number</i>    | <i>Per cent</i> | <i>Number</i>    | <i>Per cent</i> | <i>Number</i>    | <i>Per cent</i> |
| Central Govt                               | 111,762          | 52%             | 104,047          | 48%             | 215,809          | 100%            |
| Municipality                               | 161,113          | 21%             | 596,351          | 79%             | 757,464          | 100%            |
| County council                             | 44,406           | 20%             | 176,694          | 80%             | 221,100          | 100%            |
| Private sector:<br>white-collar<br>workers | 692,800          | 56%             | 539,000          | 44%             | 1,231,800        | 100%            |
| Private sector:<br>blue-collar<br>workers  | 782,300          | 70%             | 341,100          | 30%             | 1,123,400        | 100%            |
| <i>Total</i>                               | <i>1,792,381</i> | <i>50.5%</i>    | <i>1,757,192</i> | <i>49.5%</i>    | <i>3,549,573</i> | <i>100%</i>     |

*Source:* Statistics Sweden's wage structure statistics.

According to Table 1.1, most are employees in the private sector and the majority of those who work in the public sector are employed by municipalities and county councils, while relatively few are central government employees. The central government sector has decreased in the past decades by activities being transferred to municipalities and county councils and not least to the private sector.

Table 1.1 also shows the breakdown of women and men between different sectors. The distribution of women to the different sectors differs greatly. Women make up the great majority, 79 and 80 per cent respectively in municipalities and county councils while

the majority of blue-collar workers in the private sector are men. The distribution is more even among white-collar workers in the private sector (44 per cent women) and among central government employees (48 per cent women). The self-employed are not included in the systems described here. The majority of the self-employed are men.

Table 1.2 shows that the number of women in the private and public sector is approximately the same (50 per cent in each sector), while the great majority of men are employed in the private sector (83 per cent). This indicates that the design of supplementary benefits in the public sector is important for more women than men. The design of the supplementary benefits in the private sector is on the other hand important for the majority of men.

**Table 1.2** Percentage distributions of employees by sector in 2003

|                                      | <i>Men</i>  | <i>Women</i> | <i>All</i>  |
|--------------------------------------|-------------|--------------|-------------|
| Central Govt                         | 6%          | 6%           | 6%          |
| Municipalities                       | 9%          | 34%          | 21%         |
| County Councils                      | 2%          | 10%          | 6%          |
| Private sector: white-collar workers | 39%         | 31%          | 35%         |
| Private sector: blue-collar workers  | 44%         | 19%          | 32%         |
| <i>Total</i>                         | <i>100%</i> | <i>100%</i>  | <i>100%</i> |

*Source:* Statistics Sweden's wage structure statistics.

Besides the benefit schemes for the four large spheres of agreement, there are often other agreements that apply to parts of these sectors, as a rule agreements for particular industries in the private sector. The explanation for there generally being agreement-based insurance and agreement-based benefits in four large spheres and not in a lot of smaller sectors can be found in the fact that most agreements on supplementary benefits were mainly drawn up at a time when central pay negotiations predominated both in the public and private sector. Wage negotiations in the private sector no longer take place centrally but on an industry basis. These negotiations accordingly now take place at a lower level than before. This means that it has now become more complicated to change existing benefit schemes, which usually



apply to broader areas than the pay agreements. New supplementary benefit schemes tend to come into existence at the industry level and thus also to vary more from industry to industry than previously. The agreements on supplementary benefits for parental leave are a clear example of this variation.

### **1.3 How are supplementary benefits designed?**

We have pointed out that other forms of benefits complement the social insurance benefits. How are these supplementary benefits designed? There are three main forms of supplementary benefits.

The first type of supplementary benefit is an increase in the level of compensation for the parts of the benefit that compensate for wage parts up to the ceiling of the respective social insurance schemes. This supplement is often a particular number of percentage points, not infrequently ten percentage points (for example from 80 to 90 per cent), but in other cases the supplementary benefit is contribution-based and the level of compensation is therefore not known in advance. The ceiling varies between different social insurance benefits. It is lower in unemployment insurance, for instance, than for health insurance and pension insurance. There are also two different ceilings in unemployment insurance, the level of the ceiling varying with the period of unemployment.

The second type of supplementary benefit is compensation for parts of pay above the ceiling for the social insurance benefits. The level of compensation from the supplementary benefits above the ceiling is usually considerably higher than that provided below the ceiling. In many cases, this means that the total replacement rate will be the same, or almost the same, above the ceiling as below it.

The third type of supplementary benefit concerns an extension of the total period of benefit. This kind of extension is possible in cases when the duration of the benefit period provided by the social insurance schemes is limited. One example is that the supplementary benefit can extend the period of benefit for those who are unemployed. Another example is that agreement-based pensions can be paid before the ordinary retirement age and thus extend the period during which old age pension is paid. Extensions of the period of old age pension of this kind were considerably more common previously when many groups had a retirement age

below 65 by agreement (before July 1976 lower than 67), than is the case today.

The level of compensation from the supplementary benefits is highest for parts of pay above the ceiling of the social insurance benefits. As we will see in coming chapters, benefits above the ceiling are not paid in many cases to blue-collar workers in the private sector. In the cases where such benefits exist, the supplementary benefit in one case, old age pension, is only of the same size as that below the ceiling. The question then is how many have a salary above the ceiling of the social insurance benefits. Estimates are shown in Table 1.3 for the ceiling that applies for, among other benefits, old age pension and sickness benefit (7.5 price base amounts). More detailed information is contained in the tables in an appendix to this chapter. Among men employed in central government, county council or as white-collar workers in the private sector, the proportion with salaries above the ceiling is fifty per cent or higher. The proportion with salaries over the ceiling is also high among women in these areas compared with the corresponding shares for women in other areas, although they are considerably lower than for men in the same areas. Among municipal employees and blue-collar workers in the private sector, the proportion with salaries above the ceiling is considerably lower than in the other areas. However, almost 10 per cent of the blue-collar workers in the private sector have salaries over the ceiling. Benefits for part of income above the ceiling are accordingly also of interest for a part of this group.

**Table 1.3** Per cent with a wage over SEK 25,000 per month in 2003 (the ceiling in the social insurance schemes is 7.5 price base amounts, i.e. a monthly wage of SEK 24,625 in 2005 and SEK 24,125 in 2003)

|  | <i>Men</i> | <i>Women</i> | <i>All</i> |
|--|------------|--------------|------------|
| Central Govt   | 50%        | 26%          | 38%        |
| Municipalities   | 19%        | 8%           | 11%        |
| County Councils  | 48%        | 19%          | 25%        |
| Private sector: white-collar workers                         | 56%        | 29%          | 45%        |
| Private sector: blue-collar workers<br>(pay over SEK 24,000) | 11%        | 4%           | 9%         |

*Source:* Statistics Sweden's wage structure statistics.

Pay varies, among other things, with age and how pay varies with age is important, among other things, for the level of compensation on retirement. The salary during the year (years) prior to retirement is important for the benefit-based parts of the agreement-based pensions. We are therefore showing the proportion with a salary over SEK 25,000 for different agreement spheres broken down into five-year classes between 45 and 64 years for all persons and for men and women separately. See Tables 1.4–1.6. According to the tables, salaries are higher than average for those aged 55 to 59 and 60 to 64 in the sectors that have defined benefit pensions for parts of salaries over the ceiling. This applies particularly to men, but is not as clear for women with the exception of those who are employed in the municipal sector. Among men aged between 60–64 who are government or county council employees or who are white-collar workers in the private sector more than 60 per cent have wages above the ceiling of the social insurance schemes.

**Table 1.4 Per cent with a wage over SEK 25,000 per month in 2003 (SEK 24,000 for blue-collar workers in the private sector)**

| <i>Age</i> | <i>Central Govt</i> | <i>Municipality</i> | <i>County Council</i> | <i>Private sector white-collar workers</i> | <i>Private sector blue-collar workers</i> |
|------------|---------------------|---------------------|-----------------------|--|---|
| 45–49      | 44%                 | 11%                 | 27%                   | 57%  | 11%                                       |
| 50–54      | 43%                 | 17%                 | 29%                   | 50%  | 10%                                       |
| 55–59      | 44%                 | 23%                 | 29%                   | 49%  | 11%                                       |
| 60–64      | 47%                 | 23%                 | 27%                   | 46%  | 8%  |
| 18–64      | 38%                 | 11%                 | 25%                   | 45%  | 9%  |

*Source:* Statistics Sweden's wage structure statistics.

**Table 1.5** Per cent of *men* with a wage over SEK 25,000 per month in 2003 (SEK 24,000 for blue-collar workers in the private sector)

| <i>Age</i> | <i>Central Govt</i> | <i>Municipality</i> | <i>County Council</i> | <i>Private sector white-collar workers</i> | <i>Private sector blue-collar workers</i> |
|------------|---------------------|---------------------|-----------------------|--|---|
| 45–49      | 58%                 | 20%                 | 53%                   | 65%  | 13%                                       |
| 50–54      | 59%                 | 29%                 | 56%                   | 65%  | 12%                                       |
| 55–59      | 60%                 | 38%                 | 60%                   | 64%  | 11%                                       |
| 60–64      | 64%                 | 40%                 | 63%                   | 61%  | 9%  |
| 18–64      | 50%                 | 19%                 | 48%                   | 56%  | 11%                                       |

*Source:* Statistics Sweden's wage structure statistics.

**Table 1.6** Per cent of *women* with a wage over SEK 25,000 per month in 2003 (SEK 24,000 for blue-collar workers in the private sector)

| <i>Age</i> | <i>Central Govt</i> | <i>Municipality</i> | <i>County Council</i> | <i>Private sector white-collar workers</i> | <i>Private sector blue-collar workers</i> |
|------------|---------------------|---------------------|-----------------------|--|---|
| 45–49      | 29%                 | 9%                  | 22%                   | 36%  | 5%  |
| 50–54      | 27%                 | 14%                 | 22%                   | 30%  | 3%  |
| 55–59      | 27%                 | 18%                 | 21%                   | 29%  | 4%  |
| 60–64      | 28%                 | 18%                 | 19%                   | 24%  | 3%  |
| 18–64      | 26%                 | 8%                  | 19%                   | 29%  | 4%  |

*Source:* Statistics Sweden's wage structure statistics.

The ceiling is lower in unemployment insurance than in other social insurance benefits. There are moreover two ceilings (the applicable ceiling depends on the length of time the person has been unemployed). In Table 1.7, we have broken down the individuals by income to see how large share is above the upper ceiling, between the two ceilings, and below the lower ceiling. We are not able to produce exact figures since we have not been able to break down the individuals' monthly wages according to the exact limits for the ceilings but only to the nearest thousand kronor. However, we believe that the figures presented provide some idea of for how many supplementary benefits between the ceilings and above the upper ceiling may provide increased income cover.

**Table 1.7** Per cent in 2003 with a wage below SEK 19,000 per month, between SEK 19,000 and SEK 20,999 and SEK 21,000 or above (the two ceilings in the unemployment insurance scheme were SEK 18,700 and SEK 20,075 in 2003)

|                              | <i>Men</i> |               |         | <i>Women</i> |               |         | <i>All</i> |               |         |
|------------------------------|------------|---------------|---------|--------------|---------------|---------|------------|---------------|---------|
|                              | <19,000    | 19,000-20,999 | ≥21,000 | <19,000      | 19,000-20,999 | ≥21,000 | <19,000    | 19,000-20,999 | ≥21,000 |
| Central Govt                 | 13%        | 13%           | 74%     | 29%          | 22%           | 49%     | 21%        | 17%           | 62%     |
| Municipality                 | 39%        | 18%           | 43%     | 55%          | 19%           | 26%     | 52%        | 18%           | 30%     |
| County Council               | 20%        | 12%           | 68%     | 35%          | 18%           | 47%     | 32%        | 17%           | 51%     |
| Private sector: white-collar | 23%        | 10%           | 67%     | 38%          | 12%           | 51%     | 21%        | 13%           | 66%     |
|                              | <19,200    | 19,200-20,799 | ≥20,800 | <19,200      | 19,200-20,799 | ≥20,800 | <19,200    | 19,200-20,799 | ≥20,800 |
| Private sector: blue-collar  | 53%        | 17%           | 30%     | 79%          | 9%            | 12%     | 61%        | 14%           | 25%     |

Source: Statistics Sweden's wage structure statistics.

Since both ceilings in the unemployment insurance scheme are lower than the ceiling in other social insurance schemes, there are more people with wages above the ceilings. The statistics in Table 1.7 indicate that large groups have wages that are between the two ceilings and above the upper ceiling. This is particularly the case for men but also for many women. This means that supplementary unemployment benefits for parts of wages between the ceilings and above the upper ceiling can provide increased income cover for large groups.

## 1.4 Organisation of the study

The main part of our study consists of a review and analysis of supplementary benefits in six areas: unemployment (chapter 2), occupational injury (chapter 3), illness (chapter 4), long-term reduced work capacity/disability pension (chapter 5), old age pension (chapter 6) and parental leave (chapter 7). For each area, there is a description of the long-term development of benefits, a survey of the development of social insurance in the area and its current design, a presentation of the complementary benefits in the area and the compensation that is provided for different income levels,

a presentation is made of research in the area, and we discuss the possible effects of the benefits. In a final chapter, chapter 8, we take up more general issues. Among other things, we discuss effects on income distribution, labour supply, and mobility, alternative designs of supplementary benefit and the need for information in the area.

There are some agreement-based benefits that are outside the areas compensated for by social insurance. The most important example is occupational group life insurance (TGL). We do not take up these benefits. We also do not present all types of benefits in the areas covered by social insurance either. Some examples are member insurances (group insurance) for illness and disability and the benefits paid according to agreements reached at company level. This does not mean that we regard these benefits as unimportant. On the contrary, we believe that it is important to include these benefits as well in further survey and analysis of the area.

In the course of the work on the survey, we have benefited greatly from comments from a large number of people. Many people, from, among others, employer associations and trade unions have made detailed comments on the different chapters. The persons who had made comments are shown in a note on the first page of the respective chapter. These comments have enabled us to avoid a lot of misunderstandings and contributed to making our presentation clearer. We take sole responsibility for any remaining errors. We are, of course, also solely responsible for any conclusions we have drawn based on the material.

We have also benefited greatly from comments and discussions at seminars at the Ministry of Finance, the Ministry of Health and Social Affairs, the Parliamentary Committee on Social Insurance, the Parental Insurance Commission, the Pension Tax Commission, the Social Insurance Commission, the TAM archive, the Network for Pension Specialists, Swedish Social Policy Association, and a seminar arranged jointly by SACO and TCO where we presented the work in process. We would also like to thank Levi Svenningsson, ESS for very good collaboration. We are continuing work in this area and for this reason among others we are grateful to receive comments and points of view on the study.

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## Appendix to chapter 1. Average wages and wage distribution

**Table A1.1 Average wage (SEK) and wage distribution in different sectors in 2003**

|                      | Central Govt        | Municipality        | County Council      | Private sector      |                     |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                      |                     |                     |                     | White-collar        | Blue-collar         |
| Average monthly wage | 24,800 <sup>1</sup> | 19,700 <sup>1</sup> | 24,100 <sup>1</sup> | 27,100 <sup>2</sup> | 18 900 <sup>3</sup> |
| Wage interval        | Per cent            |                     |                     | Wage interval       | Per cent            |
| –14,999              | 0.1%                | 7.1%                | 1.4%                | 3.3%                | –14,344 8.8%        |
| 15,000–18,999        | 20.1%               | 44.8%               | 30.3%               | 18.1%               | 14,400–19,199 52.3% |
| 19,000–24,999        | 41.0%               | 37.3%               | 43.7%               | 33.5%               | 19,200–23,999 29.8% |
| 25,000–30,999        | 22.0%               | 8.7%                | 11.7%               | 21.0%               | 24,000– 9.0%        |
| 31,000–36,999        | 8.6%                | 1.4%                | 3.9%                | 10.3%               |                     |
| 37,000–42,999        | 3.8%                | 0.4%                | 1.6%                | 5.7%                |                     |
| 43,000–              | 3.7%                | 0.3%                | 7.3%                | 8.0%                |                     |
| No. of employees     | 215,809             | 757,464             | 221,100             | 1,231,800           | 1,123,400           |

<sup>1</sup> Monthly wage refers to agreed-based wage including fixed supplement and variable wage supplements such as unsocial hours, on-duty and standby payments. All wages have been adjusted upwards to full-time wages.

<sup>2</sup> Monthly wage refers to wage for time worked and benefits, on-duty and standby payments, compensation for waiting and travelling time outside ordinary working hours. Overtime pay is not included.

<sup>3</sup> The wages of blue-collar workers are shown in the statistics as hourly wages. The hourly wage is recalculated to a monthly wage by being multiplied by 160. Consequently, the wage intervals shown are not either the same as for other sectors. Wage means wage for time worked and benefits, on-duty and standby payment, compensation for waiting and travel time outside ordinary working hours and, when appropriate, weekend/public holiday pay. Overtime pay is not included.

Source: Statistics Sweden's wage structure statistics.

**Table A1.2 Average wage (SEK) and wage distribution for men in different sectors in 2003**

|                      | Central Govt        | Municipality        | County Council      | Private sector      |                     |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                      |                     |                     |                     | White-collar        | Blue-collar         |
| Average monthly wage | 26,800 <sup>1</sup> | 21,300 <sup>1</sup> | 31,400 <sup>1</sup> | 30,100 <sup>2</sup> | 19 456 <sup>3</sup> |
| Wage interval        | Per cent            |                     |                     | Wage interval       | Per cent            |
| –14,999              | 0.5%                | 6.3%                | 1.9%                | 2.2%                | –14,344 5.8%        |
| 15,000–18,999        | 12.5%               | 32.6%               | 17.8%               | 10.9%               | 14,400–19,199 47.4% |
| 19,000–24,999        | 37.0%               | 41.7%               | 32.1%               | 29.0%               | 19,200–23,999 35.8% |
| 25,000–30,999        | 27.1%               | 14.2%               | 13.2%               | 24.3%               | 24,000– 10.9%       |
| 31,000–36,999        | 11.8%               | 3.2%                | 7.4%                | 13.8%               |                     |
| 37,000–42,999        | 5.4%                | 1.2%                | 4.1%                | 7.9%                |                     |
| 43,000–              | 5.6%                | 0.8%                | 23.5%               | 12.0%               |                     |
| No. of employees     | 111,762             | 161,113             | 221,100             | 692,800             | 782,300             |

<sup>1</sup> Monthly wage refers to agreed wage including fixed supplement and variable wage supplements such as unsocial hours, on-duty and standby payments. All wages have been adjusted upwards to full-time wages.

<sup>2</sup> Monthly wage refers to wage for time worked and benefits, on-duty and standby payments, compensation for waiting and travelling time outside ordinary working hours. Overtime pay is not included.

<sup>3</sup> The wages of blue-collar workers are presented in the statistics as hourly wages. The hourly wage is recalculated to a monthly wage by being multiplied by 160. Consequently, the wage intervals shown are not either the same as for other sectors. Wage means wage for time worked and benefits, on-duty and standby payment, compensation for waiting and travel time outside ordinary working hours and, when appropriate, weekend/public holiday pay. Overtime pay is not included.

Source: Statistics Sweden's wage structure statistics.



**Table A1.3 Average wage (SEK) and wage distribution for women in different sectors years 2003**

|                      | <i>Central Govt</i> | <i>Municipality</i> | <i>County Council</i> | <i>Private sector</i> |                     |
|----------------------|---------------------|---------------------|-----------------------|-----------------------|---------------------|
|                      |                     |                     |                       | <i>White-collar</i>   | <i>Blue-collar</i>  |
| Average monthly wage | 22,700 <sup>1</sup> | 19,300 <sup>1</sup> | 22,300 <sup>1</sup>   | 23,200 <sup>2</sup>   | 17,168 <sup>3</sup> |
| Wage interval        | Per cent            |                     |                       |                       | Per cent            |
| –14,999              | 0.9%                | 7.3%                | 1.2%                  | 4.3%                  | –14,344 15.8%       |
| 15,000–18,999        | 28.3%               | 48.1%               | 33.5%                 | 27.5%                 | 14,400–19,199 63.6% |
| 19,000–24,999        | 45.2%               | 36.1%               | 46.6%                 | 39.5%                 | 19,200–23,999 16.2% |
| 25,000–30,999        | 16.6%               | 7.2%                | 11.4%                 | 16.8%                 | 24,000– 4.5%        |
| 31,000–36,999        | 5.3%                | 0.9%                | 3.0%                  | 5.9%                  |                     |
| 37,000–42,999        | 2.1%                | 0.2%                | 1.0%                  | 3.1%                  |                     |
| 43,000–              | 1.7%                | 0.1%                | 3.2%                  | 2.9%                  |                     |
| No. of employees     | 104,047             | 596,351             | 176,694               | 539,000               | 341,000             |

<sup>1</sup> Monthly wage refers to agreed wage including fixed supplement and variable wage supplements such as unsocial hours, on-duty and standby payments. All wages have been adjusted upwards to full-time wages.

<sup>2</sup> Monthly wage refers to wage for time worked and benefits, on-duty and standby payments, compensation for waiting and travelling time outside normal working hours. Overtime pay is not included.

<sup>3</sup> The wages of blue-collar workers are presented in the statistics as hourly wages. The hourly wage is recalculated to a monthly wage by being multiplied by 160. This leads to the presented wage intervals not either being the same as for other sectors. Wage means wage for time worked and benefits, on-duty and standby payment, compensation for waiting and travel time outside normal working hours and, when appropriate, weekend/public holiday pay. Overtime pay is not included.

Source: Statistics Sweden's wage structure statistics.



## Chapter 2 Unemployment benefit<sup>3</sup>

### 2.1 Compensation for unemployment<sup>4</sup>

A person who becomes unemployed and without income from work needs other financing for his or her consumption expenses. Unemployment benefit can be regarded as redistribution between those in work and the unemployed. It can also be regarded as redistribution at the individual level between periods with work and periods without. As in other areas, there is also a redistribution which the individual or his or her family carry out themselves by saving or assistance within the family.

However, there are few instances in this area of insurance policies arranged by insurance companies without a link to an organisation. In Sweden, we do not have any such examples.<sup>5</sup> There are a number of reasons why no such insurance policies exist. One explanation is that there are large differences in the risk of unemployment. This means that if uniform premiums are charged, those with a low risk will not take out insurance. This will lead to the premium having to be increased since the insurance companies' expected expenditure will be higher per insured person. When the price increases, additional groups will terminate their insurance as they consider that the price is too high compared with the amount that they can expect to receive in the form of unemployment benefit. The insurance company will again increase its premiums etc. Ultimately, the insurance company will be left with only the high-risk cases.

Another problem is that it is difficult to check whether a person has really become unemployed involuntarily and that the person is actively seeking employment. This is particularly difficult for insurance companies that do not have their own employment office

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<sup>3</sup> We would like to express our special gratitude for comments from Lars-Gösta Andréén, Swedish Association of Local Authorities and Regions (SKL), Marianne Fogelberg, SIF, Per Johansson, Swedish Trade Union Confederation (LO), Carina Landfors, Swedish Association of Graduate Engineers (CF), Gabriella Sebardt, PhD in labour law at the Law Department, Stockholm University, and Marie-Louise Strömngren, Swedish Confederation of Professional Associations (SACO).

<sup>4</sup> See Edebalk (1972) for a discussion on the general problems pertaining to unemployment insurance.

<sup>5</sup> See, however, in section 2.6.3 information on Accept Försäkringar which handles additional insurance for unemployment for those who are not members of a trade union but who do belong to an unemployment fund.

or otherwise have good opportunities to determine the effort of an individual to obtain work. An additional problem with private unemployment insurance is that insurance cases tend to be concentrated in time. Most insurance cases in other areas than unemployment tend to be at a level that varies slightly over time and with relatively slow changes – sufficiently slow to enable the companies to adjust their premiums. This is not the case for unemployment. Large variations occur and there are a large number of expensive insurance claims in downturns, which can result in insurance companies being unable to perform their obligations.

Due to the problems associated with unemployment insurance, public solutions (either wholly publicly organised or mainly publicly financed) predominate. Through public financing, the problem that those who have least risk for unemployment terminate the insurance with the result that premiums become high disappears.<sup>6</sup> However, other problems remain. The schemes tend to be expensive, in particular during downturns and there is a risk, in particular with high benefit levels, that people do not actively look for work. The schemes are therefore usually designed to give incentives to job search. There is usually a qualifying period and compensation is not 100 per cent. The aim of unemployment insurance is to provide the unemployed with compensation in order for them to be able to maintain a reasonable level of consumption during the period that they are looking for work. The compensation is to be sufficiently high to enable the unemployed person not to immediately have to take work that is outside the occupation they have trained for, but at the same time not so high that individuals refrain from taking employment in another occupation if they cannot find a job in their own field within a reasonable time. The compensation is not either to be so high that people refrain from applying for work or accepting offers of work.

In discussions of unemployment benefits and also in empirical analyses of the effects that unemployment benefit has on search behaviour and the duration of unemployment, it is often assumed that unemployment benefit from the unemployment insurance is the sole benefit. However, there are a number of other forms of benefit for those who become unemployed after having been given notice. The total level of compensation therefore often differs to

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<sup>6</sup> Even those who advocate private unemployment funds consider that participation is to be compulsory but that there should be a choice between different funds. See Beenstock and Brasse (1986).

that provided by benefit from the unemployment insurance alone. This can affect the duration of unemployment and the pattern of unemployment. This can thus complicate econometric analyses of the effects of the unemployment insurance scheme since knowledge is also required about these systems. At the same time, these systems entail greater variation which facilitates studies of the effects of variations in the benefit level. We will start here by describing the various types of supplements.

### **Benefit in the event of notice and bankruptcy**

An initial protection in the event of unemployment is that the law provides that wage is to continue to be paid for a period after a person has been given notice.<sup>7</sup> The aim is that a person who loses his or her job shall have an opportunity to look for new work while still being paid a wage. In many cases, the period of notice is longer through collective agreement than the law stipulates. A wage is also paid even if no work is to be performed, i.e. even if the person has been released from duty. A wage is also paid for a certain period even if the company goes bankrupt and activity completely ceases (state wage guarantee).<sup>8</sup>

### **Benefit in accordance with agreement or agreement-based insurance**

In the majority of spheres of agreement, there are so-called security agreements that provide additional benefit in the event of unemployment. There are substantial differences between different spheres of agreement.

1. According to the agreement between SAF (now Svenskt Näringsliv – The Confederation of Swedish Enterprise) and LO (Swedish Trade Union Confederation, the organisation for blue-collar trade unions), benefit is paid in the event of notice due to shortage of work in the form of severance pay (AGB) from an insurance. The person who has been given notice must have been employed for at least 50 months and be 40 years old or older. An amount, AGB, is paid regardless of whether the

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<sup>7</sup> See Jans (2002) for a review of the provisions.

<sup>8</sup> See SFS 1992:497 and Danhard (2004).

person given notice becomes unemployed or not. The amount varies according to the age of the person given notice – becoming greater the higher the age of the person concerned (SEK 25,000–36,000). Until 1 April 2005 an amount was also granted that varied with the duration of the period of unemployment.

2. According to an agreement between the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK)<sup>9</sup>, measures are financed in conjunction with notice due to redundancy by companies setting aside funds and by companies paying a premium to a trust. This trust, TRR, pays benefit in the form of severance pay (AGE) to the persons who are given notice. This person must have been employed for at least five years and have attained the age of 40 to be entitled to benefit. AGE is paid at 70 per cent of the wage (including unemployment benefit) up to a ceiling of 20 base amounts and at 25 per cent on wage parts above this ceiling during the first six months. The benefit level then decreases to 50 per cent for wage parts under the ceiling of 20 base amounts. The maximum benefit period varies with age and is at least six months and at most 18 months.
3. According to the central government employee security agreement, benefit is paid to persons who have been employed for at least a year. The benefit level including benefit from the unemployment insurance is 80 per cent of the previous wage and is paid for as long a period as the benefit from the unemployment insurance. Extended severance pay can be paid for at most five years if there are special reasons to do so.
4. For employees in municipalities and county councils who have been given notice, there is a lump sum benefit that varies with the period of employment, and a periodic job loss benefit paid on unemployment. The benefit level including benefit from the unemployment insurance is 80 per cent of the previous wage and is paid for the same period of time as the benefit from the unemployment insurance. It is subsequently linked to the level of the municipal old age pension and paid for as long as the unemployed person is available for work.

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<sup>9</sup> Earlier known as Federation of Salaried Employees in Industry and Services.

## Supplementary insurance in the event of loss of income on unemployment

In addition to the benefits determined by law or by agreement between employer organisations and trade union organisations, there is also insurance cover arranged by trade union organisations. There are two types – collective insurance that covers all members of a trade union and individual insurance cover.

1. A number of SACO (Swedish Confederation of Professional Associations) unions (eight unions at the beginning of 2005) and two TCO (The Swedish Confederation for Professional Employees) unions have collective insurance cover for their members.<sup>10</sup> In common for the supplementary insurance cover is that it provides compensation for income above the ceiling in the unemployment insurance scheme. The extent of compensation is the same as that provided by the unemployment insurance under the ceiling, i.e. 80 per cent. The duration of the period of benefit varies between 100 and 120 days. Individual supplementary insurance policies can be taken out in some cases. This provides cover for an additional 120 to 160 days.
2. SACO and a number of TCO unions offer individual income insurance cover. The members of these organisations can take out insurance which provides additional cover to unemployment insurance for income over the ceiling. The benefit period is 240 or 280 days.
3. Those who belong to an unemployment insurance but not necessarily to a trade union can take out individual income insurance with the insurance company Accept.

After this introductory review, we will briefly describe the public unemployment insurance scheme and then go on to a detailed review of the different agreement-based schemes and the supplementary insurance schemes set up by various trade union organisations. We will then discuss the effects that this type of supplement can be expected to have.

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<sup>10</sup> TCO unions organize white-collar workers and SACO unions those with a higher education three years or longer.

## 2.2 The development of unemployment benefit<sup>11</sup>

The first unemployment association were founded at the end of the nineteenth century, providing assistance to unemployed members. The benefit provided by these insurances was as a rule low and many unemployment insurance associations had problems in periods of depression in the inter-war period.

In 1914, municipal cash assistance was introduced for the unemployed to relieve the poor relief scheme of part of the costs of the upkeep of the unemployed. To avoid it being more attractive to have cash assistance than to work, it was decided in 1916 that the cash benefit must not exceed 2/3 of the normal wage at the location for an occupation similar to that in which the unemployed had worked.

In 1934, the Riksdag adopted an ordinance that came into effect in 1935, on recognised unemployment insurance associations (organised by the unions) and on government grants to these insurances.<sup>12</sup> According to the Ordinance, the unemployment insurance was to be voluntary and intended for wage earners. The insurance was financed by central government grants, employer contributions and contributions from the insured. The benefit was paid for 90–120 days and corresponded to at most 80 per cent of the daily wage for a comparable occupation at the location for those with a family to support and 60 per cent for other unemployed. As a rule, the benefit was considerably lower. The government grant was low and was only paid for the first 21 days of the period of unemployment. The other days had to be financed in another way. The general requirements for obtaining benefit were that the applicant was to be involuntarily unemployed, registered at the employment office, willing to accept suitable work (with regard to qualifications and employment benefits), be aged between 16 and 67 and have been unemployed for at least six days. Moreover, the member should have been insured against unemployment for at least two years and paid at least 52 weeks' contributions to the insurance, 26 of which in the past year (referred to as the membership condition). The National Board of Health and Welfare was the supervisory authority. The conditions

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<sup>11</sup> This section is based on Edebalk (1975, 1987 and 1990), Olli (1996), Olli Segendorf (2003), Wadensjö and Sjögren (2000) as well as information from the Swedish Unemployment Insurance Board (IAF) (see [www.iaf.se](http://www.iaf.se)).

<sup>12</sup> See Edebalk (1990) on the development of unemployment insurance in the first two decades.



were formulated so restrictively that most of the associations then operating refrained from applying for a government grant. They thus remained outside the system. The grant was increased in various reforms in 1941 and 1944 and a number of improvements introduced for the unemployed. The number of unemployment insurance associations that applied and were recognised increased markedly from 14 to 33 between 1940 and 1945.

The duration of the benefit period was changed in stages from at most 120 days in 1935 to 156 days in 1953 and to 200 days for those aged under 60 and 300 days for those aged 60 or older in 1968 (300 days also for those aged between 55 and 60 if they had become unemployed due to a company closure). The National Labour Market Board (AMS) took over supervision from the National Board of Health and Welfare in 1948.

In 1974, the legislation for the unemployment insurance was greatly changed. The daily benefit was made taxable and conferred pension rights and extended to 300 days for those aged under 55 and to 450 days for those aged 55 or older. The work condition required that the member had worked for at least five months in the twelve months before becoming unemployed. Labour market training, parental leave with parental benefit and national service could be counted towards earned employment for at most two of the five months of the work condition.

The municipal cash assistance ceased and was replaced by cash labour market assistance (KAS) through the Cash Labour Market Assistance Act in 1974. KAS was granted to those who did not have unemployment insurance, to members who had not yet met the membership conditions in the unemployment insurance scheme and to members when the unemployment insurance benefit period had expired and the unemployed had attained the age of 60 (55 if unemployment was due to a company closing down or changing its operations). The conditions for KAS were that the person receiving assistance was aged between 16 and 67, was able to work, sought work through the employment office and could not obtain suitable work. A work condition must also be met – work for at least ten days and 70 hours must have been performed during five of the last twelve months before becoming unemployed. Care of an elderly or disabled person, labour market training, national service, parental leave with parental benefit, could be counted as work for at most two months. KAS was paid for at most 150 days for those aged below 55, 300 days for those between 55 and

60 while the KAS period was unlimited for those aged 60 or above (although at the longest to retirement age). The benefit period was limited in 1984 to 450 days for those aged 60 or above.

In 1988, the benefit level for unemployment insurance was increased to 90 per cent of the previous daily earnings. A year later, in 1989, the work condition was changed so that the unemployed person must have worked for at least three hours a day for at least 75 days during a four-month period in the past 12 months to be entitled to the assistance. The unemployed person must attend designated labour market training or vocational rehabilitation to obtain benefit from KAS or unemployment insurance. The benefit period for KAS was 300 days at the beginning of the 1990s for those below the age of 60 and 450 days for those aged 60 and above (55 if unemployment was due to a closure or permanent change in operations). In 1993, the unemployment insurance benefit was reduced to 80 per cent of the wage.

The unemployment benefit system was changed more radically in 1994. Membership of an unemployment insurance association was now required to obtain KAS. KAS became a support for insured persons who had not yet complied with the work condition and for unemployed over the age of 60 whose benefit period from the unemployment insurance was finished. To obtain benefit, a contribution condition must also be met. During a frame period of 24 months, the insured must have had earned income for twelve months with an obligation to pay a contribution for financing of unemployment benefits. A general and a special work condition and a student condition were introduced. The general work condition was met if the unemployed during a frame period of twelve months before becoming unemployed had had paid employment for at least 75 hours per month for five months or at least 65 hours per month for ten months. For the person who did not comply with the requirements for paid employment according to the general work condition, the special work condition meant that the period the applicant had taken part in some of the labour market programmes (public relief work, labour market training, rehabilitation, working life development), or looked after an elderly or disabled person at home was equated with paid employment. To avoid repeated cycles of measures and cash support, the applicant must comply with the general work condition to be entitled to benefit again, if benefit had already been based on the special work condition. KAS and unemployment

insurance benefit were paid for at most 300 days for those below the age of 55 and for 450 days for those aged 55 and above. According to the student condition, a person who had been available for work for at least 90 days in a frame period of ten months after completing full-time education of a duration of at least a year which entitled to study social support, was entitled to a basic benefit. The basic benefit was paid for at most 150 days for unemployed below the age of 55, 300 days for those aged between 55 and 59 years old and 450 days for those who had attained the age of 60.

After the change of government in 1994, the earlier system was largely reinstated. On 1 January 1995, among other things, the general and special work conditions were abolished and the work condition for KAS and unemployment insurance benefit again became different.

From 1 January 1998, the old benefit system with KAS and the unemployment insurance ceased. The new unemployment insurance scheme has consisted since then of two parts: a basic insurance and a voluntary loss of income insurance. Both are administered by the unemployment insurance associations. Unemployment insurance covers both employees and self-employed. To be eligible for unemployment insurance, the basic condition, the membership condition and the work or student condition must be complied with. The basic condition means that the unemployed person must be registered with the employment office, be actively looking for work and be able to accept suitable work designated by the employment office or participate in a labour market measure. The membership condition is met if the unemployed has been a member of an unemployment insurance association for at least twelve months. The work condition means that the unemployed during a frame period of twelve months had to have worked for 70 hours a month for six months or for 450 hours for the past six months, of which at least 45 hours per month. The student condition confers entitlement to the basic insurance if the unemployed person has been available for work, or has worked for at least 90 days, during the frame period of ten months in connection with completed training of at least a year with entitlement to student benefits.

The basic insurance, which replaced KAS, is paid to a person who complies with the work or student condition but who is not a member of the unemployment insurance association or is a

member but who does not comply with the conditions that apply for entitlement to earnings-related benefit. The benefit is a fixed amount which is the same for everybody.

Loss of income insurance is provided for those who comply with the basic, work and membership conditions and is equivalent to 80 per cent of the loss of income up to a ceiling. The benefit period for the basic insurance and loss of income insurance was 300 days for those aged below 57 and 450 days for those aged 57 or above. To obtain unemployment benefit for a further period, it is required that the work condition is met again. For requalification labour market training, training with a training grant, national service or paternity leave (these two together can be counted for at most two months), work with recruitment assistance, relief work and start-your-own business grant are counted as paid employment for requalification (from 2000 datorstek (IT-related training), work practice and business policy activity start-up are counted as paid employment).

In 2001, a requirement was introduced for entitlement to benefit that the applicant participated in drawing up an individual action plan in consultation with the employment office. During the first 100 days of a benefit period, an applicant may confine himself or herself to applying for work within his or her own occupation or local area. Participation in labour market programmes no longer confers requalification although the frame period is extended by the period the unemployed has taken part in the programme. The benefit period is now 300 days for everyone regardless of age.

### **2.3 Unemployment benefit in 2005<sup>13</sup>**

There are 37 independent unemployment insurance associations with over 3.7 million members. The unemployment insurance associations decide on and pay unemployment benefit. The employment office provides information to jobseekers and checks that they comply with the conditions for receiving benefit, i.e. that they are actively looking for work and accept offers for suitable work or a place on a labour market programme. Until 2003, the National Labour Market Board, AMS, was responsible for

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<sup>13</sup> This section is based on SFS 1997:238 (The Unemployment Insurance Act) and information from the Swedish Unemployment Insurance Board (see [www.iaf.se](http://www.iaf.se)).

supervision of the unemployment insurance associations. From 2004, this role was taken over by the Swedish Unemployment Insurance Board, IAF.

Unemployment insurance consists of two components, a general basic insurance (the basic benefit) and a voluntary loss of income insurance (earnings-related benefit). The basic benefit is available to a person who is not a member of an unemployment insurance association or has not been a member for a sufficiently long period to comply with the membership condition, which entails having been a member for at least a year without interruption. The applicant is required to fulfil the basic condition and the work or student condition to obtain benefit according to the basic insurance.

The basic condition means that the applicant is wholly or partly unemployed and not prevented from working for at least three hours a day and at least 17 hours per week, prepared to accept work offered, registered with the employment office as a jobseeker, is actively looking for work and participates in drawing up an individual action plan in consultation with the employment office.

The work condition means that the unemployed person during a frame period of twelve months immediately preceding becoming unemployed must have worked for at least 70 hours per month for at least six months or 450 hours during six uninterrupted calendar months and at least 45 hours in each of these twelve months. Periods of time on parental benefit or in total defence duty can be counted as work, although at most for a combined total of two calendar months. Employment in some labour market programmes (work with a wage subsidy, employment in Samhall, and sheltered work at a public employer), periods of time with severance pay and employment with employment support may be counted towards the work condition.

A person who has studied may be entitled to benefit without complying with the work condition if the student condition is complied with. According to the student condition, studies are to have been completed, have had a duration of at least a year and entitle to study benefit. The jobseeker must be aged 20 or over. Benefit is paid in accordance with the basic insurance if the student condition is met (together with the basic condition). There is also a

special student condition that can qualify to benefit for those who have participated in the activity guarantee.<sup>14</sup>

Benefit according to the basic insurance is SEK 320 per benefit day for a person who worked full-time regardless of previous income (the so-called basic benefit). For a person who worked less than full-time, the daily benefit payment is reduced proportionally. Benefit is paid for at most 300 days (at most five days a week). Before benefit is paid, a five-day qualifying period must have elapsed.

To obtain earnings-related unemployment benefit, the membership, basic and work conditions described above must be fulfilled. The earnings-related benefit is paid at most 80 per cent of the previous daily income up to a ceiling. During the 100 first benefit days, benefit can be paid at most SEK 730 per day, and subsequently at most SEK 680 per day. The daily income is equivalent to 1/22 of the monthly wage. The benefit period is 300 days and it is paid for at most five days per week. This means that the ceiling for unemployment benefit is 80 per cent of a monthly wage of SEK 20,075 for the first 100 days. The maximum benefit subsequently is paid at 80 per cent of a monthly wage of SEK 18,700. There is a qualifying period of five days before benefit is paid.

The benefit period can be extended by at most an additional 300 benefit days. No new qualifying period is required in the case of extension. The unemployment insurance association is to decide on an extended benefit period only for those who risk expiry of their insurance period and where the employment office has notified the unemployment insurance association that they do not plan to refer the jobseeker to the activity guarantee. Those who risk insurance expiry but who have met the work condition again during the benefit period are granted a new benefit period of 300 days. The benefit period then starts with five qualifying days.

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<sup>14</sup> The activity guarantee is for those who are or risk becoming registered as long-term employed (over 24 months) at the employment office and are aged 20 or older. These people are offered individually adapted full-time labour market programme measures within 27 months of becoming unemployed. The activities that are offered within the framework of the activity guarantee are all labour market programmes, job clubs, orientation courses, opportunities to study at folk high school, project work and labour market practice.

## **2.4 Unemployment benefit according to agreement or from an agreement-based insurance**

As mentioned in the introduction, there are different supplementary benefits in the event of unemployment. We are going to concentrate here on those that provide benefit after a person has become unemployed – not on the agreements that delay the onset of unemployment (agreements on extended period of notice). There are three basic types of solutions: agreements between trade unions and employer organisations, member insurance cover (those who are members of a particular trade union are covered by the insurance) and individual insurance policies taken out through a trade union. Agreement-based solutions came into existence first. The question can be asked why agreement-based solutions are not the only form. One explanation may be that the employers did not agree to a solution of this kind and that the trade union organisations then adopted a different approach. Another explanation may be that the trade unions have adopted member insurance cover and individual insurance policies through the trade union organisation as a way of developing benefits especially for their members and thus having an argument when recruiting members. Although agreement-based insurances are negotiated by the trade unions, they cover everyone within the sphere of the agreement not just trade union members.

### **2.4.1 The central government sector – The job security agreement (240,000 employees are associated with the Job Security Foundation – Trygghetsstiftelsen)**

The Job Security Agreement covers employees whose conditions of employment are regulated by collective agreement between the Swedish Agency for Government Employers and the parties on the employee side. The agreement provides employees who have been given notice due to shortage of work or who have decided not to move to the new location in the event of relocation and therefore give notice themselves with the right to receive an additional benefit – severance pay – in the event of unemployment provided that they have been employed for at least a year. Severance pay is paid for the same period of time as the benefit from the unemployment insurance. Compensation is not given for the

qualifying days in the unemployment insurance. Employees who have been employed for at least three consecutive years in fixed-term jobs who become unemployed due to their appointment not being renewed due to lack of work also receive severance pay. (If the fixed-term employment terminated at the latest by 31 December 2004 and had a duration of at least five consecutive years, the previous rule applied that severance pay was paid for at most 132 days during at most two years after the employment terminated).

For a person who receives earnings-related benefit from the unemployment insurance, the severance pay is equivalent to an amount that together with the unemployment insurance benefits makes up 80 per cent of the wage. This means that severance pay is not paid for the unemployed person who had a wage below the ceiling for the unemployment insurance benefit (the ceiling is SEK 20,075/month for the first 100 days, then SEK 18,700/month). However, if the unemployed person has a wage above the ceiling, severance pay is paid at 80 per cent for wage parts above the ceiling. A person who is only entitled to the basic benefit from the unemployment insurance receives severance pay corresponding to the difference between 80 per cent of the monthly wage and the amount that would have been paid if the employee had had earnings-related benefit. The Job Foundation is financed by setting aside an amount agreed upon by the social partners in collective bargaining.

If special reasons exist, extended severance pay can be paid after entitlement to severance pay has ceased. The Job Security Foundation decides on and pays extended severance pay. The extended severance pay is paid at most until five years have elapsed since employment ceased and at the longest until the employee attains the age of 60. The extended severance pay is calculated in the same way as severance pay. However, it is very unusual for extended benefit to be paid, approximately 10 persons have been granted extended benefit in the past 15 years.

An employee who has attained the age of 60 at the time of being given notice<sup>15</sup> and who decides not to be available for work is entitled to pension benefit from the day after the employment has terminated or from the day on which he is no longer available to the labour market. An employee who has not been given notice can

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<sup>15</sup> The age limit is 61 from 2008.



also be entitled to pension benefit. The prerequisites are that the employee is aged 60 or above, has left employment of his own accord and that his retirement creates an opportunity for a person who risks being given notice or has been given notice to continue in employment or obtain new employment at his or her own government agency or another agency. If special reasons exist, a special pension benefit can be paid to an employee aged 55 or above and who is no longer entitled to benefit from the unemployment insurance or has extended severance pay. Pension benefit and the special pension benefit correspond to the amount for old age pension without reduction for drawing the pension early in accordance with the state pension agreement PA 03 (see section 6.4.3). The employer meets the whole cost of the pension benefit.

**Table 2.1 Benefit per month in the case of unemployment in accordance with the unemployment insurance and the central government Job Security Agreement (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| Severance pay  | 0                   | 7,940 for 100 days<br>9,040 for 200 days   | 23,940 for 100 days<br>25,040 for 200 days |
| Total  | 12,000 for 300 days | 24,000 for 300 days                        | 40,000 for 300 days                        |

#### **2.4.2 Municipalities and county councils – AGF-KL (approximately 1,100,000 employees within the sphere)**

Municipal and county council employees can obtain severance pay in accordance with the AGF-KL agreement when given notice because of shortage of work. The central partners have initiated negotiations on an adjustment agreement to replace AGF-KL, which notice has therefore been given to terminate although it has been extended until further notice with a two-week period of notice. The severance pay consists partly of a lump sum benefit and partly of a periodic severance pay. AGF-KL is not an insurance but

the employer meets the whole cost of both the lump sum benefit and the periodic severance pay.

To be eligible for the lump sum benefit, it is required that the employee has been employed until further notice at an employer covered by the PFA collective agreement on pensions and has been so for at least 36 calendar months, is aged 25 or above and has not reached the age of mandatory retirement. The lump sum benefit is equivalent to 1/3 of the employee's normal monthly income immediately prior to termination of the employment multiplied by the number of whole employment years within the whole local government sector.<sup>16</sup> The lump sum benefit can, however, at most amount to an amount corresponding to six monthly wages for the employee.

Entitlement to periodic severance pay is based on age and period of employment within the sector and is reported in Table 2.2. The requirement for the period of employment is reduced with increased age. Note that the period of employment need not be continuous but that it is the total period of employment within the sector that counts. An employee cannot receive both periodic and lump sum benefit. A person who is qualified to receive periodic severance pay can choose instead to draw lump sum benefit in accordance with the conditions that apply for this benefit.

**Table 2.2** Age and period of employment required for periodic severance pay in accordance with AGF-KL

| <i>Age (years)</i> | <i>Total period of employment in whole calendar months, at least</i> |
|--------------------|--|
| 45                 | 210  |
| 46                 | 204  |
| 47                 | 198  |
| 48                 | 192  |
| 49                 | 186  |
| 50                 | 180  |
| 51                 | 174  |
| 52                 | 168  |
| 53                 | 162  |
| 54                 | 156  |
| 55                 | 150  |
| 56                 | 144  |
| 57                 | 138  |
| 58                 | 132  |
| 59                 | 126  |
| 60                 | 120  |

<sup>16</sup> For childminders, the lump sum benefit is instead based on an average of the twelve most recent monthly wages.

To be granted periodic severance pay, the employee must be unemployed and be available for work by being registered at and in regular contact with the employment office. This rule does not apply to those who have less than five years to retirement or a 20-year period of employment with an employer, however.

During the period that the employee receives benefit from the unemployment insurance, the periodic severance pay together with the earnings-related benefit corresponds to 80 per cent of the employee's monthly income before unemployment. In practice, this means that an employee with a wage under the ceiling in the unemployment insurance scheme will not receive any periodic benefit during the period of benefit from the unemployment insurance. If the employee is only entitled to the basic benefit amount from the unemployment insurance, the periodic severance pay is calculated in the same way as if the employee had had benefit from the earnings-related benefit.

**Table 2.3 Benefit per month in the case of unemployment in accordance with the unemployment insurance and periodic severance pay in accordance with the agreement of the municipalities and county councils, AGF-KL (amounts in SEK)**

| <i>Monthly wage</i>  | <i>15,000</i>  | <i>30,000</i>  | <i>50,000</i>   |
|--|--|--|---|
| Earnings-related benefit from the unemployment insurance                               | 12,000 for 300 days  | 16,060 for 100 days<br>14,960 for 200 days   | 16,060 for 100 days<br>14,960 for 200 days  |
| Severance pay during the period with benefit from the unemployment insurance           | 0  | 7,940 for 100 days<br>9,040 for 200 days   | 23,940 for 100 days<br>25,040 for 200 days  |
| Severance pay when the period with benefit from the unemployment insurance is finished | approx. 70 % <sup>1</sup> of the wage as long as the unemployed is available for work                            | approx. 60 % <sup>1</sup> of the wage as long as the unemployed is available for work                            | approx. 50 % <sup>1</sup> of the wage as long as the unemployed is available for work                       |
| Total  | 12,000 for 300 days thereafter approx. 70 % of the wage as long as the unemployed is available for work (10,500) | 24,000 for 300 days thereafter approx. 60 % of the wage as long as the unemployed is available for work (18,000) | 40,000 for 300 days thereafter ca 50 % of the wage as long as the unemployed is available for work (25,000) |

<sup>1</sup> The level of compensation depends on whether the period of earned pension entitlement amounts to at least 30 years on retirement and on the development of wages. The actual extent of compensation is usually between 20 and 60 per cent of the wage.

When the benefit period from the unemployment insurance is at an end, the periodic severance pay continues to be paid provided that the employee is still unemployed and is available for work. The size of the periodic benefit is then based on the period of earned pension entitlement and wage. To obtain full benefit, at least 30 years of pension entitlement must have been earned on retirement where employment conferring pension entitlement from the municipality is counted. The wage that confers pension entitlement consists of income from the employer and AGF-KL is calculated on the average of the five best years of the seven years preceding the year before the year of retirement. The benefit is equivalent to the old age pension that *would* have been paid in accordance with PFA if the employee at the termination of employment had reached retirement age. If the employee has more than 60 months left to the date of retirement or has a shorter period of employment than 240 months, own benefit is reduced by 10 per cent up to retirement age. This means that the benefit paid is equivalent to around 60 per cent of the wage. The benefit is paid as long as the individual is unemployed and is available for work. When retirement age is reached, the person instead receives the occupational pension applicable for municipal and county council employees.

AGF-KL is co-ordinated (reduced) by earned income such as income from employment or business activity and benefit from agreement-based group insurance and by social insurance benefits such as sickness benefit, occupational injury annuity and the social security pension. AGF-KL ceases if the unemployed person obtains new permanent employment conferring pension entitlement, old age pension in accordance with the municipal agreement, sickness benefit and monthly benefit from agreement-based group health insurance or is not available for work for other reasons than illness and has more than five years left to retirement age.

### **2.4.3 Blue-collar workers in the private sector – AGB<sup>17</sup> (900,000 employees are covered by the Employment Security Fund, TSL)**

#### **AGB prior to 1 April 2005**

The severance pay insurance, AGB, is an agreement-based insurance that covers blue-collar workers within the sphere of agreement of the Confederation of Swedish Enterprise and LO. This insurance came into existence as early as 1967.<sup>18</sup> To obtain AGB, it was required before 1 April 2005 that the employee was aged 33 or over and had lost his job due to shortage of work. AGB could provide financial assistance in the following situations in accordance with the former rules:

- (i) the company case – in the event of notice due to the company reorganising its operations or closing down the whole or part of its operations,
- (ii) the trade/industry case – in the event of notice due to shortage of work when it was not possible to continue to work within the trade/industry (which is most common in the building, construction, painting and shipping industries – i.e. in industries where staff are usually employed for a fixed period), or
- (iii) the health case – a person having to leave work for health reasons could receive AGB under certain conditions.

Entitlement to AGB was linked both to the number of AGB years earned (the qualifying period) and to the age of the insured. The employee started to earn AGB years at the earliest at the age of 28. To be credited with a full AGB year, the employee must have worked for at least 832 hours during the year. A person who had worked for 208 but not 832 hours earned a part of a ABG year in proportion to the time worked. To obtain benefit, more AGB years were required for persons aged below 40 than for older employees. This is shown in Table 2.4.

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<sup>17</sup> See Edebalk and Wadensjö (1980, 1989) for the earlier development of the AGB insurance.

<sup>18</sup> Initially it came into existence as agreement-based benefit in 1964.

**Table 2.4** AGB years required

| <i>Reason for unemployment</i>     | <i>Age</i> | <i>AGB years</i>   |
|------------------------------------|------------|--|
| The company or trade/industry case | Under 40   | At least 7 AGB-years, of which at least 3 during the past 6 calendar years |
|                                    | 40–64      | At least 3 AGB-years during the last 6 calendar years                      |
| The health case                    | 50–64      | At least 3 AGB-years during the last 6 calendar years                      |

AGB-benefit consisted of two types of benefits, A- and B-amounts. The A-amount was a lump sum benefit that varied between SEK 5,700 and SEK 13,100 depending on the age at which the employee lost his employment, as shown in Table 2.5.

**Table 2.5** A-amount benefit

| <i>Age</i> | <i>Benefit (SEK)</i>   |
|------------|--|
| –40        | 5,700  |
| 41–54      | 5,700 + supplement of 300 for every year of life between 41 and 54 |
| 55–62      | 9,900 + supplement of 400 for every year of life between 55 and 62 |
| 63–64      | 13,100   |

The B-amount was paid in addition to the A-amount if the employee during the month employment terminated had attained the age of 40. The B-benefit amount normally varied between SEK 3,000 and 27,000 in the company and trade/industry case and depended on the duration of the period of unemployment. Payment was made in arrears. Persons aged 60 or above at the time of becoming unemployed could receive at most an additional SEK 12,000. In the health case, the amount was at most SEK 9,000. The amount was paid during a two-year period for the period that the employee looked for work.

## AGB from 1 April 2005

The Confederation of Swedish Enterprise and LO have concluded a new agreement on job-loss grant that applies from 1 April 2005 in which they agreed on a contribution-based adjustment insurance consisting partly of AGB and partly of adjustment assistance that the trade union and the employer apply for jointly to provide individually adapted assistance to those given notice to find a job, retrain etc. To obtain AGB it is required in accordance with the new agreement that the employee has been given notice due to shortage of work and that the operational change in the company has led to a permanent reduction in staff, that the employee is aged 40 or above at the time of termination of employment and has been employed for at least 50 months for an uninterrupted five-year period (counting from the termination of employment) at one or more companies covered by AGB insurance.

The new benefit is paid in the form of a lump sum when employment terminates. The size of the amount is determined by the employee's age at the time of being made redundant as shown by Table 2.6. AGB is also related to the extent of employment. An employee who is made redundant from employment corresponding to 40 per cent of a full-time job will receive 40 per cent of the AGB amount.

**Table 2.6** AGB benefit from 1 April 2005 (amounts in SEK)

| <i>Age</i> | <i>Benefit amount</i>                              |
|------------|--|
| 40–49      | 25,000   |
| 50–59      | 25,000 + 1,000 in supplement for each year of life |
| 60–64      | 36,000   |

AGB is paid by the Employment Security Fund TSL to blue-collar workers who have been given notice due to shortage of work and who are working in companies which have entered into an insurance agreement on AGB with TSL. TSL is a collective agreement foundation jointly established by LO and the Confederation of Swedish Enterprise. This activity is financed by a contribution calculated on the wages bill for the employees in the companies which are linked by agreement to TSL. The insurer for AGB is AFA Livförsäkringsaktiebolag.

#### **2.4.4 White-collar workers in the private sector – AGE (700,000 employees are covered by the TRR Employment Security Council)**

According to an agreement between the Confederation of Swedish Enterprise and PTK, an employee who is made redundant due to shortage of work can obtain a severance pay, AGE. AGE is financed by companies paying a premium to the TRR Employment Security Council which in turns pays AGE to employees who have been given notice. On 21 January 2005, TRR's board decided on changed rules for AGE which apply to those employees who have become unemployed after this date.

##### **AGE before 21 January 2005**

For those who became unemployed before 21 January 2005, AGE was paid to an employee who had been given notice due to shortage of work if the employee had attained the age of 40 at the time of being made redundant, had been employed for at least five hours per week for an uninterrupted period of five years and was seeking work provided that the company the employee had been employed by belonged to TRR.

Income protection means that the earnings-related benefit from the unemployment insurance together with AGE amounted to 70 per cent of the previous wage for wage parts up to 20 price base amounts and 25 per cent of wage parts larger than 20 price base amounts. The benefit for those who did not receive benefit from any unemployment insurance was based on what had been paid from the unemployment insurance if the employee had been entitled to such benefit. The duration of benefit depended on the age of the person given notice and when employment terminated, as shown by Table 2.7.



**Table 2.7 AGE for employees with a wage above the ceiling in unemployment insurance when given notice prior to 21 January 2005**

| <i>Notice given before 1 January 2004</i> |   | <i>Notice given from 1 January 2004</i> |   |
|---|---|---|---|
| <i>AGE paid for at most</i>               | <i>If the age of the unemployed person on the last day of work is</i> | <i>AGE is paid for at most</i>          | <i>If the age of the unemployed person on the last day of work is</i> |
| 18 months                                 | 40–49   | 6 months                                | 40–44   |
| 24 months                                 | 50–59   | 12 months                               | 45–54   |
| 30 months                                 | 60–64   | 18 months                               | 55–59   |
|   |   | 24 months                               | 60–64   |

Persons with a wage that was below the ceiling in the unemployment insurance received benefit from the unemployment insurance that amounted to more than 70 per cent of the monthly wage. AGE was paid to these employees in accordance with the information in Table 2.8 for the same time periods as shown in Table 2.7.

**Table 2.8 AGE for employees with a wage below the ceiling in unemployment insurance when given notice prior to 21 January 2005 (amounts in SEK)**

| <i>Wage</i>   | <i>AGE amounts paid each sixth month</i> |
|---------------|--|
| <12,000       | 2,500                                    |
| 12,000–17,900 | 3,000                                    |
| 18,000–21,900 | 3,500                                    |

### AGE from 21 January 2005

New rules for AGE apply to those who have been given notice from 21 January 2005. The benefit level is 70 per cent of the monthly wage for the first six benefit months, after which it decreases to 50 per cent. For those with a wage larger than 20 price base amounts, the benefit is 70 per cent for wage parts under 20 price base amounts and 25 per cent for wage parts over 20 price base amounts during the first six months. Thereafter, the benefit is 50 per cent for wage parts below 20 price base amounts and 25 per cent on wage parts above 20 price base amounts. As

before, benefit for those who do not have benefit from an unemployment insurance is based on what the employee would have received if he had had such benefit. The benefit period is shortened, as shown in Table 2.9. Compensation is not provided for the unemployment insurance’s qualifying days. In the case of partial unemployment, AGE is provided for the part of working hours for which the employee is looking for work, although unemployment must be at least 20 per cent. If the unemployed is granted an additional period from unemployment insurance after the 300 days, AGE is not paid for a new period.

**Table 2.9 AGE for employees with wages above the ceiling in unemployment insurance who have become unemployed from 21 January 2005**

| <i>AGE is paid at the longest for</i> | <i>If the unemployed on the last day of work is</i> |
|---------------------------------------|---|
| 6 months                              | 40–44 years   |
| 12 months                             | 45–59 years   |
| 18 months                             | 60–64 years   |

To be entitled to AGE, it is still required that the employee must have lost his work by being given notice due to shortage of work, have attained the age of 40, worked for at least five hours per week during a five-year period, be looking for work and be registered at the employment office.

**Table 2.10 Benefit per month in accordance with unemployment insurance and AGE in the case of unemployment which has occurred after 21 January 2005 (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>  | <i>50,000</i>  |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days                       | 16,060 for 100 days<br>14,960 for 200 days                       |
| <b>AGE</b>   |                     |  |  |
| <40 years  | 0                   | 0  | 0  |
| 40–44 years  | 0                   | 4,940 for 100 days <sup>a</sup><br>6,040 for 32 days             | 18,940 for 100 days <sup>a</sup><br>20,040 for 32 days           |
| 45–59 years  | 0                   | 4,940 for 100 days<br>6,040 for 32 days<br>40 for 132 days       | 18,940 for 100 days<br>20,040 for 32 days<br>10,040 for 132 days |
| 60–64 years  | 0                   | 4,940 for 100 days<br>6,040 for 32 days<br>40 for 264 days       | 18,940 for 100 days<br>20,040 for 32 days<br>10,040 for 264 days |
| <b>Total</b>   |                     |  |  |
| <40 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days                       | 16,060 for 100 days<br>14,960 for 200 days                       |
| 40–44 years  | 12,000 for 300 days | 21,000 for 132 days<br>14,960 for 168 days                       | 35,000 for 132 days<br>14,960 for 168 days                       |
| 45–59 years  | 12,000 for 300 days | 21,000 for 132 days<br>15,000 for 132 days<br>14,960 for 36 days | 35,000 for 132 days<br>25,000 for 132 days<br>14,960 for 36 days |
| 60–64 years  | 12,000 for 300 days | 21,000 for 132 days<br>15,000 for 168 days<br>40 for 96 days     | 35,000 for 132 days<br>25,000 for 168 days<br>10,040 for 96 days |

<sup>a</sup> The benefit from the unemployment insurance is paid for at most five days per week. The average number of benefit days per month is 22. 100 days is then equivalent to 4.5 months benefit. AGE is paid for six months for unemployed aged between 40 and 44 which is here counted as corresponding to 132 days (6\*22) with benefit from an unemployment insurance. Twelve months is equivalent to 264 days and 18 months to 396 days here.

#### **2.4.5 Municipal enterprises (30,000 employees are covered by the Employment Security Agreement KFS)**

The Employment Security Agreement KFS has been concluded between, on the one side, the Swedish Organisation for Local Enterprises, KFS, and on the other side, the Swedish Municipal

Workers' Union, the State Employees Union (now SEKO), the Swedish Teachers' Union, SKTF, SALF, the Swedish Association of Health Professionals SHSTF, CF and other member unions of SACO. It provides those made redundant with the right to severance pay, AGE. AGE is paid in accordance with the following rules: the employee must have been given notice due to shortage of work, have been employed in the company for at least five years (periods of work in other companies with AGE entitlement may be counted if the employee within five years before the current notice has been made redundant due to shortage of work from the previous job) and be aged 40 or over.

AGE is co-ordinated with benefit from unemployment insurance. This means that benefit from AGE together with benefit from the unemployment insurance amounts to 80 per cent of the previous wage. AGE is paid for the same period as benefit from unemployment insurance.

**Table 2.11 Benefit per month in the case of unemployment in accordance with the unemployment insurance and the local enterprises' AGE (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| Severance pay  | 0                   | 7,940 for 100 days<br>9,040 for 200 days   | 23,940 for 100 days<br>25,040 for 200 days |
| Total  | 12,000 for 300 days | 24,000 for 300 days                        | 40,000 for 300 days                        |

#### **2.4.6 Bank and finance employees – Agreement BAO/F (55,000 employees are covered by the Employment Security Fund)**

BAO and the Financial Sector Union of Sweden take part together in the joint organisation the Employment Security Fund. White-collar workers who have been given notice who have been employed by the same or different banks/companies for an uninterrupted period of five years can apply for a supplement to unemployment insurance benefit from the Employment Security Fund. During the period of benefit paid by the unemployment

insurance, the Employment Security Fund supplements the benefit up to 80 per cent of the wage up to a maximum wage of SEK 25,000 per month.

Benefit can also be paid during full-time training for at most three months at 80 per cent of the wage, although at most SEK 25,000 per month (provided that benefit from unemployment insurance is not paid).

**Table 2.12 Benefit per month in the case of unemployment in accordance with unemployment insurance and the agreement for bank and financial employees (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| Supplement of unemployment benefit                       | 0                   | 3,940 for 100 days<br>5,040 for 200 days   | 3,940 for 100 days<br>5,040 for 200 days   |
| Total  | 12,000 for 300 days | 20,000 for 300 days                        | 20,000 for 300 days                        |

#### **2.4.7 Non-profit making organisations, cultural institutions etc. (30,000 employees are covered by the Employment Security Council TRS)**

The TRS agreement has been entered into between the Employers' Alliance, Swedish Performing Arts and the Council for Negotiation and Co-operation (PTK) and applies to both white-collar and blue-collar workers. To obtain severance pay, AGE, it is required that the employee has been given notice due to the employer being unable to offer continued employment because of shortage of work, been employed for at least five consecutive years by the employer (if the employee has been made redundant by another employer who belongs to TRS due to shortage of work within five years prior to the current giving of notice, the previous period of employment can be counted provided that the employments have followed one another without a break), have worked for at least eight hours a week, is not on sick leave and is registered at the employment office. The activity in TRS is financed by member employers paying a contribution of 0.3 per cent of the total wages bill for its employees.

The calculation of AGE always takes place on the basis of unemployment benefit regardless of whether the person given notice is able to receive benefit from the unemployment insurance or not. AGE and benefit from the unemployment insurance correspond together to 75 per cent of the wage at the termination of employment. AGE is not paid for the qualifying days. The amount is adjusted if the person given notice is partially unemployed. The maximum period of payment depends on the age of the person given notice at the end of the period of notice in the way shown by Table 2.13.

**Table 2.13 AGE for employees of non-profit making organisations, cultural institutions etc.**

| <i>AGE is paid at the longest for</i> | <i>If the unemployed on the last day of work is</i> |
|---------------------------------------|---|
| 18 months                             | below 50 years of age                               |
| 24 months                             | aged between 50 and 60                              |
| 30 months                             | aged between 60 and 65                              |

Persons who receive benefit from an unemployment insurance that amounts to 75 per cent of the wage at the time of termination and comply with the basic conditions for AGE receive AGE from TRS at a minimum amount per six-month period. The minimum amount is SEK 4,000 kronor for those with income up SEK 15,000 per month per six-month period (equivalent to SEK 667 per month in AGE) and SEK 6,000 per six-month period for those with a wage from SEK 15,001 per month (equivalent to SEK 1,000 per month in AGE).

**Table 2.14 Benefit per month from unemployment insurance and AGE for employees of non-profit making organisations, cultural institutions etc. (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>                           | <i>30,000</i>   | <i>50,000</i>   |
|--|---|---|---|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days                     | 16,060 for 100 days<br>14,960 for 200 days            | 16,060 for 100 days<br>14,960 for 200 days              |
| <b>AGE</b>   |   |   |   |
| <50 years  | 667 for 396 days <sup>a</sup>           | 6,440 for 100 days <sup>a</sup><br>7,540 for 296 days | 21,440 for 100 days <sup>a</sup><br>22,540 for 296 days |
| 50–59 years  | 667 for 528 days                        | 6,440 for 100 days<br>7,540 for 428 days              | 21,440 for 100 days<br>22,540 for 428 days              |
| 60–64 years  | 667 for 660 days                        | 6,440 for 100 days<br>7,540 for 550 days              | 21,440 for 100 days<br>22,540 for 550 days              |
| <b>Total</b>   |   |   |   |
| <50 years  | 12,667 for 300 days<br>667 for 96 days  | 22,500 for 300 days<br>7,540 for 96 days              | 37,500 for 300 days<br>22,540 for 96 days               |
| 50–59 years  | 12,667 for 300 days<br>667 for 228 days | 22,500 for 300 days<br>7,540 for 228 days             | 37,500 for 300 days<br>22,540 for 228 days              |
| 60–64 years  | 12,667 for 300 days<br>667 for 330 days | 22,500 for 300 days<br>7,540 for 330 days             | 37,500 for 300 days<br>22,540 for 330 days              |

<sup>a</sup> The benefit from the unemployment insurance is paid for at most five days per week. The average number of benefit days per month is 22. 100 days is equivalent to 4.5 months benefit. AGE is paid for 18 months to unemployed aged under 50 years which has been counted here as equivalent to 396 days (18\*22) of benefit from an unemployment insurance. 24 months is equivalent to 528 days and 30 months to 660 days here.

### 2.4.8 The employment security agreement for the Co-operative Movement

White-collar workers who belong to KFO-PTK and KFO-KTF are covered by the agreement entered into between the Confederation of Swedish Enterprise and PTK presented in section 2.4.4. White-collar workers in KFO-Handels have an employment security agreement with the same content as provided by the agreement between the Confederation of Swedish Enterprise and PTK although the benefit is administered through its own fund. Blue-collar workers in the KFO sphere are covered by the agreement between LO and the Confederation of Swedish Enterprise as presented in section 2.4.3.

### 2.4.9 The employment security agreement for employees in the real estate industry (9,000 members of Fastigo Employment Security Council)

A employee security agreement for white-collar workers in the real estate industry between Fastigo on the one hand and Sif, Ledarna (the Swedish association for managerial and professional staff), Swedish Association of Architects and SKTF on the other hand provides white-collar workers (not executives) who have been given notice due to shortage of work the right to severance pay. Blue-collar workers in the real estate industry may receive AGB in accordance with the Confederation of Swedish Enterprises and LO's agreement presented in section 2.4.3 above. Severance pay is paid to white-collar workers from the Employment Security Fund if the employee has been employed by the company for at least five consecutive years (time employed by a company belonging to the same group may be counted). The five years can be counted from previous employment, although within a total frame of at most eight years, if the employers were covered by the TRR, KFS, TRS Employment Security Councils or the Job Security Foundation. The employee must moreover have worked for at least 16 hours per week and be registered at the employment office to be entitled to benefit.

AGE is time-limited and shall together with benefit from the unemployment insurance correspond to 80 per cent of the monthly wage at the time of termination of employment. Calculation of AGE is made on the basis of benefit from the unemployment insurance also for those who are not entitled to benefit from unemployment insurance. The duration of benefit varies with the age of the person who has been given notice as shown in Table 2.15. No benefit is paid for qualifying days in the unemployment insurance scheme. The amount is adjusted proportionally if the person who has been given notice is partially unemployed.

**Table 2.15 AGE for employees in the real estate industry**

| <i>AGE is paid at the longest for</i> | <i>If the unemployed person on the last day of work is aged</i> |
|---------------------------------------|---|
| 18 months                             | below 50  |
| 21 months                             | between 50 and 60   |
| 28 months                             | between 60 and 65   |



**Table 2.16 Benefit per month in accordance with unemployment insurance and AGE for white-collar workers in the real estate industry (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>                           | <i>30,000</i>   | <i>50,000</i>   |
|--|---|---|---|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days                     | 16,060 for 100 days<br>14,960 for 200 days            | 16,060 for 100 days<br>14,960 for 200 days              |
| <b>AGE</b>   |   |   |   |
| <50 years  | 0                                       | 7,940 for 100 days <sup>a</sup><br>9,040 for 296 days | 23,940 for 100 days <sup>a</sup><br>25,040 for 296 days |
| 50–59 years  | 0                                       | 7,940 for 100 days<br>9,040 for 362 days              | 23,940 for 100 days<br>25,040 for 362 days              |
| 60–64 years  | 0                                       | 7,940 for 100 days<br>9,040 for 516 days              | 23,940 for 100 days<br>25,040 for 516 days              |
| <b>Total</b>   |   |   |   |
| <50 years  | 12,000 for 300 days                     | 24,000 for 300 days<br>9,040 for 96 days              | 40,000 for 300 days<br>25,040 for 96 days               |
| 50–59 years  | 12,000 for 300 days                     | 24,000 for 300 days<br>9,040 for 162 days             | 40,000 for 300 days<br>25,040 for 162 days              |
| 60–64 years  | 12,000 for 300 days<br>667 for 330 days | 24,000 for 300 days<br>9,040 for 316 days             | 40,000 for 300 days<br>25,040 for 316 days              |

<sup>a</sup> Benefit from the unemployment insurance is paid for at most five days per week. Average number of benefit days per month is 22. 100 days is then equivalent to 4.5 months benefit. AGE is paid for 18 months for unemployed aged under 50 which has here been calculated as being equivalent to 396 days (18\*22) of benefit from an unemployment insurance. 21 months is equivalent to 462 days and 28 months to 616 days here.

## 2.5 Supplementary insurance for loss of income

Besides the benefits determined by statute or by agreement between employer and employee organisations, there is insurance arranged by trade union organisations. These consist of group insurance cover that covers all members of a trade union and individual insurance policies taken out by individual members through their trade union. Within The Swedish Confederation of Professional Associations – SACO, the following trade unions have at present taken out group income insurance for their members: Swedish Association of Graduates in Agricultural, Horticultural, Forestry and Nutrition Sciences (Agrifack), Swedish Association of Graduates in Business Administration and Economics (Civil-ekonomerna), Swedish Association of Scientists (Sveriges Natur-

vetareförbundet), Swedish Association of Graduate Engineers (Sveriges Civilingenjörersförbundet), Swedish Pharmaceutical Association (Sveriges Farmaceutförbundet), Swedish Association of Graduates in Social Science, Personnel and Public Administration, Economics and Social Work (Akademikerförbundet SSR), Swedish Association of Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personnel Management and Social Science (Jusek) and the Association for Traffic and Railway in SACO (SACO-förbundet Trafik och Järnväg). The design is similar in the different areas although some differences exist. One example of differences is that the ceiling for the monthly wage that serves as the basis for compensation for some unions is SEK 50,000 and for others SEK 80,000. For benefit to be paid, it is required that the member has not given in notice of his or her own accord without an acceptable reason (see appendix to the chapter) or been dismissed due to unacceptable conduct. Within The Swedish Confederation for Professional Employees – TCO, Swedens white-collar union (SIF) and Swedish association of white-collar workers who work with service and support to the public within municipal and county areas, as well as within the church (SKTF) have group income insurance. The National Union of Sales People (Säljarnas Riksförbundet) also has group income insurance.

SACO and a number of TCO unions also provide individual income insurance. Members of the organisations can take out insurance cover that provides supplements to unemployment insurance for income above the ceiling. Even those who do not belong to a union but who belong to an unemployment insurance association can take out individual income insurance. This is available from the insurance company Accept Försäkringar.

### **2.5.1 The Swedish Association of Graduates in Agricultural, Horticultural, Forestry and Nutrition Sciences – Agrifack (8,000 members)<sup>19</sup>**

Agrifack's income insurance is an integrated part of membership and is financed by increased subscriptions (SEK 31 per month) from July 2004. The insurance first started to apply on 1 December

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<sup>19</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

2004 which means that only members who have become unemployed on that day or later are covered by this insurance.

To be covered by the insurance, the employee must have been a member of Agrifack for at least 18 months, have been registered as an occupationally active paying member for at least six months, and have worked for at least twelve of the last 18 months. The insurance covers all occupationally active members aged 60 or younger. AEA (The Unemployment Fund for Graduates in Sweden) membership is required to be eligible for the insurance. The amount from the insurance amounts together with benefit from the unemployment insurance to 80 per cent of the wage up to a monthly wage of SEK 50,000 for 120 days. (See Table 2.17 for benefit per month in accordance with the unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

### **2.5.2 The Swedish Association of Graduates in Social Science, Personnel and Public Administration, Economics and Social Work – Akademikerförbundet SSR (46,000 members)<sup>20</sup>**

Akademikerförbundet SSR's income insurance is an integrated part of membership and is financed by increased subscriptions (SEK 25/month) from January 2005. The insurance starts to apply from 1 July 2005, which means that only members who become unemployed on that day or later are covered by the insurance.

The group income insurance provides benefit so that together with benefit from the unemployment insurance, it compensates for 80 per cent of the monthly wage up to a wage of SEK 50,000 per month. The insurance covers all occupationally active persons who have been members of Akademikerförbundet SSR for at least 18 months, have been gainfully employed for at least twelve of the last 18 months and are below 61 years of age. The insured must also belong to AEA to be eligible for the insurance. Benefit is paid for at most 120 days. (See Table 2.17 for benefit per month in accordance with unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

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<sup>20</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

### **2.5.3 Swedish Association of Graduates in Business Administration and Economics – Civilekonomerna (35,000 members)<sup>21</sup>**

Members who have become unemployed on 1 May 2004 or later are, through Civilekonomerna's group income insurance entitled to a benefit which together with benefit from the unemployment insurance is equivalent to 80 per cent up to a monthly wage of SEK 50,000 for 120 days. To be eligible, it is required that the insured person has been a member of Civilekonomerna for at least 18 months and been registered as an occupationally active paying member for at least six months. The member must furthermore have been gainfully employed for at least twelve of the last 18 months and comply with the requirements made to receive benefit from AEA. The insurance applies up until the end of the year in which the insured attains the age of 60. (See Table 2.17 for benefit per month in accordance with unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

### **2.5.4 The Swedish Association of Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personnel Management and Social Science – Jusek (70,000 members)<sup>22</sup>**

As from 1 January 2005 Jusek increased its membership subscription by SEK 71 per month to finance the new group income insurance that will be paid to those who become unemployed after 1 July 2005. Employees in the central government sector are not covered by the agreement and will therefore have a lower membership subscription since the state security agreement provides better benefits than Jusek's group income insurance. The group income insurance provides a benefit which together with benefit from the unemployment insurance is equivalent to 80 per cent of the wage up to a monthly wage of SEK 50,000 for 120 days.

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<sup>21</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

<sup>22</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

To be eligible for benefit, it is required that the insured has been a member of Jusek for the past 18 months. A person who is a central government employee and who changes employment to the private sector, municipal or county council is to work and pay insurance for six months before benefit can be paid. To receive benefit, the insured must have worked for at least twelve of the last 18 months and be a member of and comply with the requirements of AEA for benefit and be aged under 61. (See Table 2.17 for benefit per month in accordance with the unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

### **2.5.5 Swedish Association of Scientists – Naturvetareförbundet (18,000 members)<sup>23</sup>**

Naturvetareförbundet's income insurance, which started on 1 May 2004, provides members with a benefit which together with benefit from the unemployment insurance is equivalent to 80 per cent of the wage up to a monthly wage of SEK 50,000 for 120 days. To obtain benefit, the individual must have been a member of Naturvetareförbundet for at least 18 months prior to becoming unemployed and have been gainfully employed for at least twelve of these months, to be a member of and comply with the requirements made to receive benefit from AEA and be aged under 61. (See Table 2.17 for benefit per month in accordance with unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

### **2.5.6 The Association for Traffic and Railway within SACO – SACO-förbundet Trafik och Järnväg (TJ) (3,400 members)<sup>24</sup>**

Group income insurance is included as part of membership in TJ from 1 September 2003. The insurance provides the insured with a benefit that together with benefit from the unemployment insurance is equivalent to 80 per cent of the wage up to a monthly

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<sup>23</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

<sup>24</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

wage of SEK 50,000 per month for 120 days. To be eligible for this insurance, the insured must have been a member of TJ for at least 18 months and have been gainfully employed for at least twelve of these. The insurance ceases to apply at the end of the year in which the insured attains the age of 60. To be entitled to benefit, it is moreover required that the insured is a member of and complies with the criteria to receive benefit from AEA. (See Table 2.17 for benefit per month in accordance with unemployment insurance and the group income insurance for the wage levels SEK 15,000, SEK 30,000 and SEK 50,000.)

**Table 2.17 Benefit per month in accordance with the unemployment insurance and the group income insurance for members of Agrifack, Akademikerförbundet SSR, Civilekonomerna, Jusek, Naturvetareförbundet and TJ (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                              |                     |  |  |
| ≤60 years  | 0                   | 7,940 for 100 days<br>9,040 for 20 days    | 23,940 for 100 days<br>25,040 for 20 days  |
| 61–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤60 years  | 12,000 for 300 days | 24,000 for 120 days<br>14,960 for 180 days | 40,000 for 120 days<br>14,960 for 180 days |
| 61–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

### 2.5.7 The Swedish Association of Graduate Engineers – CF (100,000 members)<sup>25</sup>

CF's group income insurance is paid for a total of 100 days and provides a benefit which together with benefit from the unemployment insurance is equivalent to 80 per cent of the monthly wage up to a wage of SEK 80,000. The insurance is included in the membership subscription, which was increased by

<sup>25</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

SEK 33 to finance the insurance, and covers all occupationally active members up to and including the age of 60. To obtain benefit from the insurance, the insured must also belong to AEA. CF's income insurance started on 1 September 2003. To obtain benefit the insured must have been a member of CF for at least 18 months, have been gainfully employed for at least twelve of the last 18 months and comply with the requirements made for earnings-related benefit from AEA.

**Table 2.18 Benefit per month in accordance with unemployment insurance and the group income insurance for CF's members (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                                  |                     |  |  |
| ≤60 years  | 0                   | 7,940 for 100 days                         | 23,940 for 100 days                        |
| 61–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤60 years  | 12,000 for 300 days | 24,000 for 100 days<br>14,960 for 200 days | 40,000 for 100 days<br>14,960 for 200 days |
| 61–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

### 2.5.8 The Swedish Pharmaceutical Association – Svenska Farmaceutförbundet (7,400 members)<sup>26</sup>

The group income insurance is included as a part of membership of Svenska Farmaceutförbundet from 1 May 2004. The insurance means that the insured may receive benefit which together with benefit from unemployment insurance is equivalent to 80 per cent of the wage up to a monthly wage of SEK 80,000 per month for 120 days. To obtain this insurance, the insured must have been a member of the Swedish Pharmaceutical Association for at least 18 months and have been gainfully employed for at least twelve

<sup>26</sup> Note that this figure refers to the number of members in the union. All members are not covered by the insurance. Student members and members aged over 60 are not eligible.

months of this period. The insurance applies up until the end of the year the insured attains the age of 60. To be entitled to benefit, it is further required that the insured is a member of and complies with the requirements to receive benefit from AEA.

**Table 2.19 Benefit per month in accordance with unemployment insurance and the group income insurance for the members of Svenska Farmaceutförbundet (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                                  |                     |  |  |
| ≤60 years  | 0                   | 7,940 for 100 days<br>9,040 for 20 days    | 23,940 for 100 days<br>25,040 for 20 days  |
| 61–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤60 years  | 12,000 for 300 days | 24,000 for 120 days<br>14,960 for 180 days | 40,000 for 120 days<br>14,960 for 180 days |
| 61–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

### **2.5.9 Swedens White-collar Union – Sif (366,000 members)**

To be covered by Sif's group income insurance the employee must have benefit from the unemployment insurance, have become a member between the age of 21 and 58, have been covered by the insurance for 18 months when he or she became unemployed and have worked for at least twelve of these months (at least 70 hours/month). Cover is then provided to at the longest 61 years of age inclusive. The insurance is included in membership for incomes up to ten price base amounts (SEK 32,833 per month in 2005 – the price base amount is SEK 39,400 in 2005). The members who have an annual income in excess of ten price base amounts can take out extra (individual) insurance that covers income up to SEK 60,000 per month. The group insurance is paid for 100 days (with 22 benefit days per month, this means 4.5 months) and



equivalent, together with benefit from the unemployment insurance, 80 per cent of the wage.

**Table 2.20 Benefit per month in accordance with unemployment insurance and group income insurance for Sif's members (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                              |                     |  |  |
| ≤61 years  | 0                   | 7,940 for 100 days                         | 10,206 for 100 days                        |
| 62–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤61 years  | 12,000 for 300 days | 24,000 for 100 days<br>14,960 for 200 days | 26,266 for 100 days<br>14,960 for 200 days |
| 62–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

### **2.5.10 The National Union of Sales People – Säljarnas Riksförbund (12,500 members)**

Säljarnas Riksförbund's group loss of income insurance provides the insured with an income which together with benefit from the unemployment insurance is equivalent to 80 per cent of the wage up to SEK 28,000 per month for at most 120 days. The insurance premium is included in the membership subscription.

The qualifying period for insurance (the period during which premium is to have been paid) is 24 months for the self-employed and partners in close companies and twelve months for others. The qualifying period includes continuous periods that the insured has been a member of Säljarnas Riksförbund or covered by another income insurance in a Swedish insurance company prior to admission to Säljarnas Riksförbund.

Insured are the members of Säljarnas Riksförbund who are permanently resident in Sweden, comply with the requirement on a qualifying period on the date of notice/bankruptcy, have not received unemployment insurance benefit or other cash unemployment benefit during the past two years and have not attained the

age of 65 on the date of notice/bankruptcy. The insurance applies with a qualifying period of 20 days.

**Table 2.21 Benefit per month from the unemployment insurance and the individual income insurance for members of Säljarnas Riksförbunds (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>   | <i>50,000</i>   |
|--|---------------------|---|---|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days                        | 16,060 for 100 days<br>14,960 for 200 days                        |
| Income insurance   | 0                   | 6,340 for 80 days*<br>7,440 for 40 days                           | 6,340 for 80 days*<br>7,440 for 40 days                           |
| Total  | 12,000 for 300 days | 16,060 for 20 days*<br>22 400 for 120 days<br>14,960 for 160 days | 16,060 for 20 days*<br>22 400 for 120 days<br>14,960 for 160 days |

\*Because of 20 qualifying days.

A person who earns more than SEK 28,000 per month can take out a voluntary supplementary insurance at Accept Försäkringar for a monthly income up to SEK 50,000 per month. The conditions for the supplementary insurance are the same as for the group loss of income insurance.

### **2.5.11 The Union of Civil Servants – ST (100,000 members)**

Those who are members of ST and are employees within the corporate sphere can take out a loss of income insurance in Accept Försäkringar (those who are covered by the agreement with The Swedish Agency for Government Employers and by the Job Foundation already have income cover, see section 2.4.1). Loss of income insurance provides, together with benefit from unemployment insurance and possible other employee security benefits an income of 80 per cent of the wage up to a wage level of SEK 50,000 per month for a maximum of 280 days.

The insured must have paid premiums for at least twelve months and worked for at least 70 hours per month during this period. The insurance ceases to apply on the first of the month after the

insured has attained the age of 62 years. Loss of income insurance starts to be paid after 20 qualifying days.

**Table 2.22 Benefit per month from unemployment insurance and the individual income insurance for members of ST members (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                              |                     |  |  |
| ≤61 years  | 0                   | 7,940 for 80 days*<br>9,040 for 200 days   | 23,940 for 80 days*<br>25,040 for 200 days |
| 62–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤61 years  | 12,000 for 300 days | 16,060 for 20 days*<br>24,000 in 280 days  | 16,060 for 20 days*<br>40,000 for 280 days |
| 62–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

\*Because of 20 qualifying days.

### **2.5.12 The Swedish Association of White-collar Workers who Work with Service and Support to the Public within Municipal and County Areas, as well as within the Church – SKTF (180,000 members)**

From 1 May 2005 income insurance is automatically included in membership of SKTF – SKTF's income insurance. The first benefit is paid at the earliest from July 2005. The insurance is being financed by an increase in the membership subscription of SEK 22 for a person who has an income over the ceiling of the unemployment insurance. Förenade Liv is the insurer. The insurance covers a person who is a member of SKTF, is a member of and is entitled to earnings-related benefit from SKTF's unemployment insurance association, Kommunaltjänstemännens Arbetslöshetskassa, KA, and who is below the age of 62. To obtain benefit the employee must have been a member of SKTF for at least twelve months and not been unemployed during this qualifying period. If the employee has been a member of another trade union with

compulsory income insurance, he or she can be credited with this period as qualifying period. To obtain benefit, the insured shall have become involuntarily unemployed and not the cause of notice being given.

The benefit is equivalent, together with the earnings-related benefit from KA, to 80 per cent of the wage. The maximum wage compensated for is SEK 60,000. Other earnings-related benefit, for instance, benefit from the Employment Security Council, may reduce the benefit amount. If the combined benefit exceeds 80 per cent of the benefit-based income and reduction does not take place from KA, Förenade Liv is obliged to reduce benefit so that the combined benefit does not exceed 80 per cent of the income conferring benefit entitlement.

The benefit is paid during most 120 days of an unemployment period. The period starts with five qualifying days. A person who has previously received benefit can re-qualify for benefit if he or she has been a member of SKTF for an uninterrupted period of at least 18 months after the last benefit period.

**Table 2.23 Benefit per month from unemployment insurance and the individual income insurance for members of SKTF (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                                  |                     |  |  |
| ≤61 years  | 0                   | 7,940 for 100 days<br>9,040 for 20 days    | 23,940 for 100 days<br>25,040 for 20 days  |
| 62–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤61 years  | 12,000 for 300 days | 24,000 for 120 days<br>14,960 for 180 days | 40,000 for 120 days<br>14,960 for 180 days |
| 62–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

Those covered by SKTF's income insurance and who are below the age of 59 can take out a supplementary insurance. The benefit from insurance is paid at most for 140 days per unemployment period

and the benefit amount depends on the premium paid as shown in Table 2.24. The insurance ceases to apply the month the insured attains the age of 62.

**Table 2.24 Monthly premium and benefit from SKTF's income insurance supplement**

| <i>Wage interval (SEK)</i> | <i>Benefit amount per day (SEK)</i> | <i>Monthly premium (SEK)</i> |
|----------------------------|-------------------------------------|------------------------------|
| 20,075–21,999              | 45                                  | 30                           |
| 22,000–23,999              | 90                                  | 60                           |
| 24,000–25,999              | 136                                 | 90                           |
| 26,000–27,999              | 182                                 | 120                          |
| 28,000–29,999              | 227                                 | 150                          |
| 30,000–31,999              | 273                                 | 180                          |
| 32,000–                    | 318                                 | 210                          |

## 2.6 Individual income insurance cover

### 2.6.1 SACO income insurance (in all 556,000 are members of a SACO union, of which 415,000 are occupational active)

SACO's loss of income insurance can be taken out by members of all SACO unions in the insurance company SACO Salus Ansvar Försäkrings AB. The insurance provides, together with benefit from the unemployment insurance, 80 per cent of the wage up to a monthly wage of SEK 50,000. The insurance premium varies with the wage and is shown for a number of wage levels in Table 2.25.

**Table 2.25 The insurance premium at different monthly wages for SACO's income insurance**

| <i>Monthly wage (SEK)</i> | <i>Premium per month (SEK)</i> |
|---------------------------|--------------------------------|
| 25,000                    | 133                            |
| 30,000                    | 206                            |
| 35,000                    | 276                            |
| 40,000                    | 344                            |
| 45,000                    | 410                            |
| 50,000                    | 476                            |

The insurance can be taken out by those who are aged between 21 and 58, belong to one of SACO’s member unions and to AEA. The insurance terminates at the end of the years the insured attains the age of 60. To obtain benefit, the insurance must have been taken out at the latest 18 months before the person became unemployed, the insured must have been a member of a SACO union for the past 18 months, the insured must not have given notice of their own free will without reasonable cause or dismissed to improper conduct and must have been gainfully employed for at least twelve of the last 18 months for at least 70 hours per month.

The benefit is paid after a 20-day qualifying period (compared with a five-day qualifying period for benefit from the unemployment insurance) and is paid at the longest for 240 benefit days. To be reinsured, it is required that the insured has paid employment again for at least twelve consecutive months and must not have had unemployment benefit during this period.

**Table 2.26 Benefit per month from unemployment insurance and the individual income insurance for members of SACO (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>       | <i>30,000</i>  | <i>50,000</i>  |
|--|---------------------|--|--|
| Premium per month                                    | –                   | 206  | 476  |
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days                       | 16,060 for 100 days<br>14,960 for 200 days                       |
| <b>Income insurance</b>                              |                     |  |  |
| ≤60 years  | 0                   | 7,940 for 80 days*<br>9,040 for 160 days                         | 23,940 for 80 days*<br>25,040 for 160 days                       |
| 61–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤60 years  | 12,000 for 300 days | 16,060 for 20 days*<br>24,000 for 240 days<br>14,960 for 40 days | 16,060 for 20 days*<br>40,000 for 240 days<br>14,960 for 40 days |
| 61–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days                       | 16,060 for 100 days<br>14,960 for 200 days                       |

\*Because of 20 qualifying days.

## **2.6.2 The Financial Sector Union of Sweden – Finansförbundet (33,000 members)**

Finansförbundet's individual income insurance provides benefit that together with benefit from unemployment insurance and BAO/Finansförbundet's Employment Security Fund (see section 2.4.6) provides 80 per cent of current wage up to a monthly wage of SEK 50,000 for at most 280 days. The insured must have paid an insurance premium for at least twelve months for it to apply. Furthermore, a person who takes out insurance must have permanent employment, be a member of the Financial Sector Union of Sweden and be entitled to benefit from the unemployment insurance. The insurance terminates the month after the insured has attained the age of 62. Loss of income insurance starts to be paid after 20 qualifying days.

The premium depends on the insured person's income and whether this person works for a company which belongs to BAO/Finansförbundet's Employment Security Fund. For those who, for instance, earn SEK 26,000 per month and work in a company that belongs to BAO/Finansförbundet's Employment Security Fund, the premium for loss of income insurance is SEK 30 per month. If the company does not belong, the insured pays SEK 98 per month in premium. At a wage of SEK 35,000 per month, the premium is SEK 109 and SEK 195 respectively per month.

**Table 2.27 Benefit per month from unemployment insurance and the individual income insurance for members of the Financial Sector Union of Sweden (amounts in SEK)**

| <i>Monthly wage</i>                                      | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from the unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                                  |                     |  |  |
| ≤61 years  | 0                   | 7,940 for 80 days*<br>9,040 for 200 days   | 23,940 for 80 days*<br>25,040 for 200 days |
| 62–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤61 years  | 12,000 for 300 days | 16,060 for 20 days*<br>24,000 for 280 days | 16,060 for 20 days*<br>40,000 for 280 days |
| 62–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

\*Because of 20 qualifying days.

### 2.6.3 The Insurance Company Accept – Accept Försäkringar

Those who are not members of a trade union but belong to an unemployment insurance association can take out a voluntary loss of income insurance in the case of unemployment at Accept Försäkringar. The insured must comply with the following criteria: not be self-employed/a partner of a close corporation, be a permanent resident of Sweden, belong to an unemployment insurance association, be covered by the Security of Employment Act and be permanently employed. The premium must have been paid for twelve months for the insurance to be valid. During these twelve months the insured must have worked at least 70 hours per month.

The benefit amounts, together with benefit from the unemployment insurance, to 80 per cent of the monthly wage for 280 days. The maximum wage that can be compensated for is SEK 50,000 per month. The insurance applies with a qualifying period of 20 days. The insurance terminates on the first day of the month after the insured has attained the age of 62.



**Table 2.28 Benefit per month from unemployment insurance and Accept's individual income insurance (amounts in SEK)**

| <i>Monthly wage</i>                                  | <i>15,000</i>       | <i>30,000</i>                              | <i>50,000</i>                              |
|--|---------------------|--|--|
| Earnings-related benefit from unemployment insurance | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |
| <b>Income insurance</b>                              |                     |  |  |
| ≤61 years  | 0                   | 7,940 for 80 days*<br>9,040 for 200 days   | 23,940 for 80 days*<br>25,040 for 200 days |
| 62–64 years  | 0                   | 0  | 0  |
| <b>Total</b>   |                     |  |  |
| ≤61 years  | 12,000 for 300 days | 16,060 for 20 days*<br>24,000 for 280 days | 16,060 for 20 days*<br>40,000 for 280 days |
| 62–64 years  | 12,000 for 300 days | 16,060 for 100 days<br>14,960 for 200 days | 16,060 for 100 days<br>14,960 for 200 days |

\*Because of 20 qualifying days.

#### **2.6.4 Active labour market policy and supplementary compensation**

Entering unemployment, the unemployed receives unemployment benefits from the unemployment insurance association. When the unemployed enters a labour market programme, the unemployment benefit is replaced by activity support administered by the Social Insurance Agency. The income from the benefit from the insurance association and the activity support from the Social Insurance Agency is usually at the same level. However, several of the supplementary compensation payments are only granted when the unemployed receives support from the unemployment insurance association, not when receiving activity support. This means that when an unemployed enters a labour market programme, his benefits decrease. Hence, the incentives to join a labour market programme decrease. Benefits from the following contracts and organisations are withdrawn when an unemployed enters a labour market programme: the central government's job security agreement, income insurance for members of the Swedish Association of Graduates in Agricultural, Horticultural, Forestry and Nutrition Sciences (Agrifack), the Swedish Association of Business Administration and Economics (Civilekonomerna),

the Swedish Association of Scientists (Sveriges Naturvetareförbund), the Swedish Association of Graduate Engineers (Sveriges Civilingenjörsförbund), the Swedish Pharmaceutical Association (Sveriges Farmaceutförbund), the Swedish Association of Graduates in Social Science, Personnel and Public Administration (Akademikerförbundet SSR), the Swedish Association of Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personnel Management and Social Science (Jusek) and the Association for Traffic and Railway within SACO (SACO-förbundet Trafik och Järnväg), The National Union of Sales People (Säljarnas Riksförbund) and the Union of Civil Servants (ST), the individual income insurance for SACO members and Accept Försäkringar's individual income insurance.

## **2.7 Exclusion of agreement-based benefit in research and studies of unemployment**

As mentioned in the introduction to the chapter, it is important to take into consideration income from supplementary benefits when analysing the effect of unemployment insurance on the duration of periods of unemployment and job search. Basic search theory (see Mortensen 1977, 1990 and van den Berg 1990) implies that both the level and the duration of payments from unemployment benefit will affect the duration of an individual's period of unemployment. The higher the benefit, the higher the reservation wage, which leads to the period of unemployment being longer since the individual rejects wage offers that are considered to be too low. Towards the end of the period of unemployment, the probability increases that the individual will obtain a job since the reservation wage declines when the insurance money is soon at an end. The longer the benefit period is, the longer will the average unemployment period be.

### **Expiry of the insurance period and the probability of returning to work**

It is important for researchers investigating the probability of an unemployed person returning to work during an unemployment benefit period to know the exact length of the benefit period. See, for instance, Björklund and Holmlund (1989), Carling et al (1996)

and Røed et al (2002) for analyses of the duration of unemployment, the probability of obtaining work and benefit periods in Sweden. Let us assume that we wish to investigate the outflow from unemployment during the benefit period and that we are particularly interested in the outflow when the benefit period is approaching its end. We assume furthermore that benefit from the public system is paid for 300 days and that there is no labour market programme available that extends the benefit period. We find in our hypothetical analysis a correlation between the duration of benefit and the probability that an individual's return to work that looks like Figure 2.1.

**Figure 2.1** The probability of return to work and its development during the benefit period

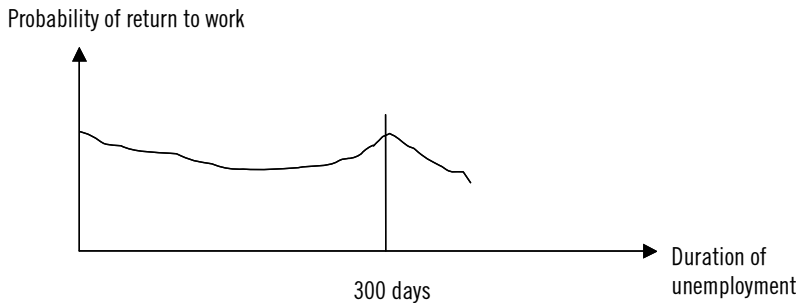


Figure 2.1 illustrates the case where the probability that an individual will leave unemployment decreases weakly during the period of unemployment but rises slightly just before the expiry of the insurance period which occurs after 300 days. After the expiry of the insurance period, the probability of returning to work decreases again. The period illustrated in the figure has been limited to 50 days after expiry of the insurance. The conclusion is that the date of expiry of insurance has a weak positive effect on the probability that an individual will leave unemployment.

Let us now assume that the public benefit in the case of unemployment is not the only benefit that an individual may have in the case of unemployment but that agreement-based benefit is paid in the case of unemployment and that this agreement extends the benefit period in the case of unemployment. We assume that there are three sectors in the labour market and that the two

with most employees have agreements that extend benefit by 100 and 200 day respectively. Examples of agreements designed in this way are the central government agreement that can provide benefit for up to five years (see section 2.4.1), the municipal agreement that can provide benefit until retirement (see section 2.4.2), the TRS agreement for employees in non-profit making organisations and cultural institutions etc. that extends benefit by between four and 17 months depending on the age of the unemployed (see section 2.4.7) and Fastigo’s agreement that extends benefit by between four and 15 months depending on the age of the unemployed (see section 2.4.9).

Assume that we decide to extend our analysis period to study the probability of return to work also after 350 days of unemployment. We can then perhaps find the pattern that is shown in Figure 2.2.

**Figure 2.2** The probability of return to work and benefit from the public system and agreement-based benefits

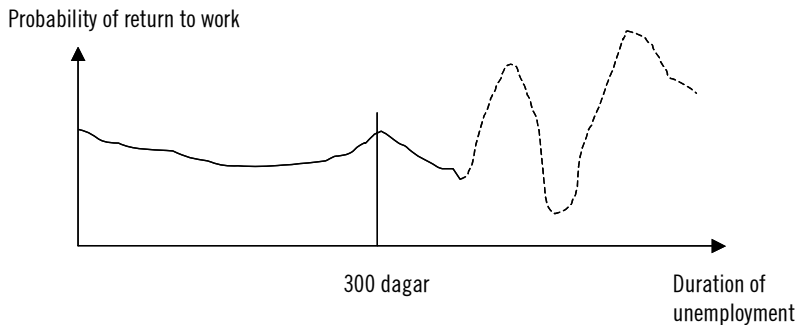


Figure 2.2 shows that the probability of a person returning to work drastically increases after approximately 400 days of the unemployment benefit period to then rapidly diminish and again increase after 500 days of unemployment. These dates coincide with the expiry dates of insurance in our hypothetical agreements. In the figure, the correlation between the date of expiry of insurance and the probability of an unemployed person leaving unemployment is highly positive. By omitting the agreements from our analysis and only looking at the public benefit in the case of unemployment, we found a weak positive correlation. When we included the agreements and extended the period we investigated,

we obtained a different result – when individuals approach the expiry date for the insurance, their probability of obtaining a job increases dramatically. This is a hypothetical example of why it is important to take into consideration income from agreement-based insurance as well in analyses of changes in the probability that an individual will return to work during the period of unemployment. Above all, it is important to take into consideration that the date of expiry of insurance can be different for different groups.

### **The level of benefit and the duration of unemployment**

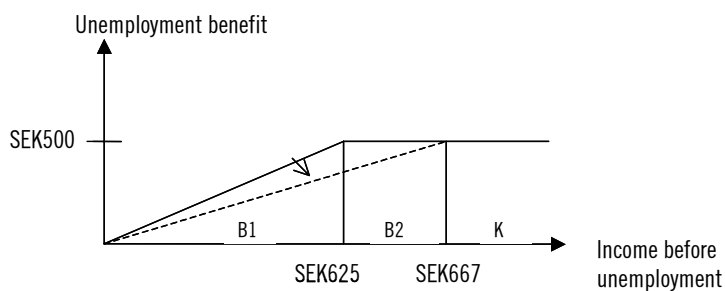
One approach used in research on how unemployment benefit affects the duration of periods of unemployment is to compare two groups which are differently affected by a reduction or decrease of unemployment benefit. One example is to compare how the periods of unemployment change for those whose benefit from an unemployment insurance association is reduced from 80 to 75 per cent (the treatment group) compared with how they change for those who are not affected (the control group). See Carling et al (2001) for an example.

Let us hypothetically assume that the monthly wage is compensated for at 80 per cent for 300 days but that the maximum benefit paid is SEK 500 per day. Let us then assume that the benefit level is reduced to 75 per cent but that the maximum benefit paid is still SEK 500 per day. We will then have three groups whose income during unemployment is affected differently by the reduction in the benefit level:

- (i) treatment group 1 (B1) consists of those who had a daily income from work less than SEK 625 (80 per cent of SEK 625 is SEK 500) and thus have a real reduction of benefit from 80 to 75 per cent,
- (ii) treatment group 2 (B2) consists of those who had a daily income of between SEK 625 and SEK 667 (75 per cent of SEK 667 is SEK 500) and who thus have a reduction of benefit of between 0 and 5 percentage points, and
- (iii) the control group (K) which consists of those who had a daily income before unemployment that exceeded SEK 667 and were thus not affected by the reduction of the benefit level.

The three groups are illustrated by Figure 2.3.

**Figure 2.3 A reduction of benefit from unemployment insurance**

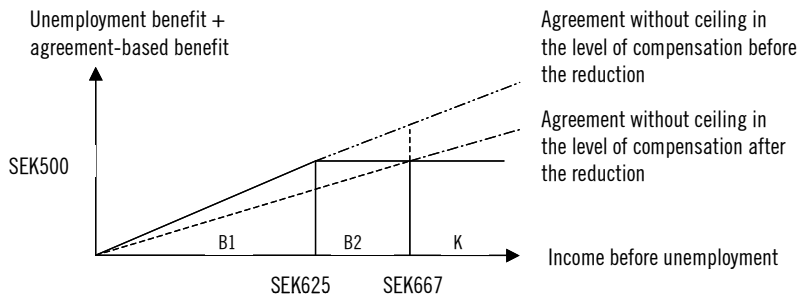


If we want to find out how a reduction of benefit from the unemployment insurance affects the duration of unemployment, we could now compare if and how the duration of periods of unemployment has been affected by the reduction for the different groups. If the situation in the labour market is exactly the same before and after the reduction, we would expect that the duration of periods of unemployment for the control group (K) would be unaffected since their benefit level is exactly as large as before the reduction of benefit from unemployment insurance. However, we would expect that the duration of periods of unemployment for the treatment groups would have been affected and we would expect them to have been shortened. It is financially not as favourable to be unemployed if benefit is lower. This would lead to the unemployed seeking work more actively, and that they would accept job offers with lower wages than they did when benefit from unemployment insurance was higher. By comparing how the duration of periods of unemployment has changed for the different groups, we could now estimate how much shorter periods of unemployment really became if the level of benefit was reduced from 80 to 75 per cent.

The above reasoning is based on benefit from unemployment insurance being the sole benefit. If that is not the case, it is not certain that our individuals have ended up in the correct comparison group in our analysis which means that our estimate of how much shorter the duration of periods of unemployment will be in a reduction of the benefit level from 80 to 75 per cent will be

incorrect. Let us take the central government agreement sphere as an example (see section 2.4.1). This agreement provides benefit above the ceiling in unemployment insurance at the same percentage rate as that received from unemployment insurance. If the benefit level is 80 per cent in unemployment insurance, the agreement gives 80 per cent of the wage the unemployed had before becoming unemployed even above the ceiling for the whole duration of unemployment benefit (The Job Foundation can also decide on extended severance pay). If the benefit level in the agreement is also reduced to 75 per cent for parts of wage above the ceiling. Let us assume that it was only employees in the central government sector that received an extra benefit when they became unemployed and that other unemployed only received unemployment insurance. This is illustrated in Figure 2.4.

**Figure 2.4** Benefit in the case of unemployment for employees with an agreement without a benefit ceiling and other employees



If the actual situation is as above, where one group may receive benefit above the ceiling as well, while another only receives benefit below the ceiling in unemployment insurance and, in our analysis of the duration of periods of unemployment and benefit levels, we only base our division into treatment groups and control groups on benefit from the unemployment insurance, we will have a control group where certain persons are affected by a reduction in the benefit level. Our method of analysis requires, however, that the individuals in the control group are not affected by the reduction of the benefit level. If that is not the case, our result of the effect of the benefit level on the duration of the period of

unemployment will probably be incorrect. It is thus important to include all benefits the unemployed receives in an analysis of benefit and the duration of unemployment. If researchers do not take agreement-based insurance into account in their analysis, their research results will not be reliable.

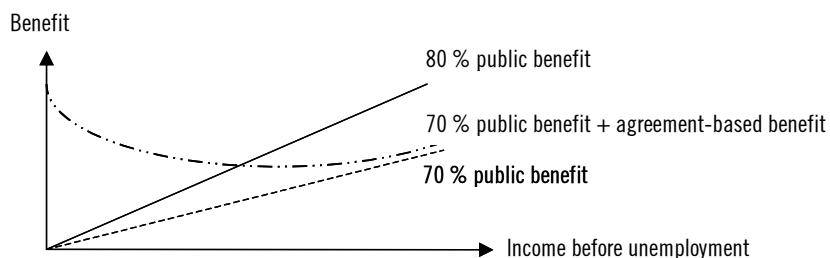
Another example of methods of analysis in research on benefit levels, duration of benefit and duration of unemployment is to take two groups where the individuals have the same income before they became unemployed, but different benefit levels and durations of benefit when they became unemployed, and compare how the duration of employment of the two groups differ. See, for instance, Røed et al (2002) for an example of this analytical approach. It is also very important in an analysis of this kind to take into consideration all benefits in the case of unemployment. If this is not done the results will be distorted. Let us assume that we compare two groups where one receives 80 per cent compensation and the other 70 per cent compensation from the public system and we obtain the result that the group which is compensated at 70 per cent has a probability of finding a job within a month which is 5 per cent higher than the probability for the group with higher benefit. We interpret that as meaning that if unemployment benefit is decreased by 10 percentage points, the probability of obtaining a job within a month increases by 5 per cent.

Let us now assume that those who have a benefit level of 70 per cent also have agreement-based benefit on a fixed amount of SEK 25,000 which is paid when notice is given. An example of this kind of agreement is the new agreement between the Confederation of Swedish Enterprise and LO which applies from 1 April 2005. The agreement provides a lump sum benefit (AGB) of SEK 25,000 to a person who has been given notice who is aged between 40 and 49. The agreement is described above in section 2.4.3. This agreement means that the persons who receive 70 per cent benefit from the public system really have a higher level of benefit and that the actual extent of benefits differs for individuals with different income within the group. Let us assume that the public benefit is paid for a year. An individual in the "70-per cent group" who had a monthly income of SEK 15,000 before becoming unemployed now receives SEK 10,500 a month from the public unemployment scheme. At the start of the period of unemployment, he also receives SEK 25,000 in agreement-based benefit which provides an extra average monthly supplement of SEK 2,083 a month during



the year that the public system pays benefit. Our individual may thus receive a monthly unemployment benefit of SEK 12,583 which is equivalent to a benefit level of almost 84 per cent. An individual within the same sphere of agreement with a wage of SEK 20,000 a month before becoming unemployed receives benefit equivalent to 80 per cent and an individual with a monthly wage of SEK 25,000 receives 78 per cent benefit. This is illustrated by Figure 2.5.

**Figure 2.5** Different benefits in the case of unemployment



By disregarding agreement-based benefit, the conclusion is that the research findings show that a reduction of the benefit level from 80 to 70 per cent increases the probability of individuals obtaining a job within a month by 5 per cent. In fact, we have measured something different. We have really compared a group which receives 80 per cent benefit with a group whose benefit varies with income. For low incomes, it is over 100 per cent to then decrease to 80 per cent (in our example at approximately SEK 20,000 kronor per month) to then approach but never reach a 70-per cent benefit level.

What could then explain our result that the group with 70 per cent benefit plus agreement-based benefit found work more quickly than the other group despite some of the first-mentioned group having a higher level of benefit? One suggestion is that few individuals in our investigation material earn under SEK 20,000 per month and thus have a level of benefits over 80 per cent. In this case, the reduced duration of unemployment for the individuals whose level of benefits is lower than 80 per cent will predominate over the (expected) increased duration of unemployment for those

with benefit over 80 per cent and the average duration of the period of unemployment can have decreased in total. If this reasoning is correct, we would probably have underestimated the importance of the effect of benefit levels on the duration of the period of unemployment. If we were to exclude those with a level of benefits over 80 per cent from the analysis and then compare those with 80 per cent benefit with those with a lower benefit, we would probably obtain a result that showed that a reduction of unemployment benefit by 10 percentage points would give rise to a larger increase in the probability of obtaining work within a month than the 5 per cent, we arrived at in our first hypothetical analysis. This example has shown that an exclusion of agreement-based benefits from the analysis has led to an underestimate.

### **The purpose of a change in the benefit ceiling**

It is also important to take into consideration the different agreement-based benefits in (political) discussions on reducing or increasing the ceiling in the unemployment insurance scheme. The reason why the decision-makers wish to reduce or increase the ceiling will become very important. If the intention of reducing the benefit ceiling is to stimulate the unemployed to look for work, this will have a small effect (unless the agreements are redrafted) if the majority of agreements offer the insured 80 per cent of the wage also above the ceiling, regardless of the level of the ceiling. The net income of the individual from unemployment will not then be changed. If the intention is to reduce the state's costs, a transfer of costs will take place to the employment security councils and the trade unions in the event of a reduction of the benefits ceiling. New individuals will be entitled to benefit from the employment security councils and the trade unions, and those already entitled will receive a larger part of their benefit from the employment security councils and the trade unions instead from the public purse. The individual's net income will, however, be unchanged (as long as the agreements are not redrafted).

## 2.8 Conclusions

The intention of the agreement on benefits and different types of supplementary insurance cover in the case of unemployment is to increase benefit in the case of unemployment by increasing the level of compensation and by extending the benefit period. This intention is fulfilled to a differing extent in different spheres of agreement. Additional compensation is paid mainly in three ways. In the first place, benefit is increased for the days where the income ceiling is lower in the unemployment insurance (increased up to 80 per cent of the wage). Secondly, benefit is paid over the ceiling, as a rule also at 80 per cent of the wage. Compensation is provided for differing periods. Thirdly, benefit in some cases is designed so as to extend the period of compensation. This applies primarily to employment in the public sector. In central government, up to five years' benefit can be granted (although this is very unusual) and in the municipal sector up to retirement age for a person who is aged 45 or older. Special conditions exist for those who are 60 years and older in the form of extended periods of benefit and that the demand to be available for work does not apply to this sector.

There are some problems in the design of the different systems and differences between the different systems. We are going to take up some of these problems here.

1. In the first place, it may be asked whether the long benefit periods in the public sector, and the fact that they are considerably longer than in other spheres of agreement, are reasonable. Long benefit periods can extend the periods of unemployment and thus also lead to higher costs for the unemployment insurance scheme. They can also lead to people deciding to remain in a job and not look for work in another sector if there is a threat of cuts and dismissals.
2. Another problem is that there are relatively long qualifying periods to obtain agreement-based insurance cover. This can lead to locking-in effects. The protection against unemployment deteriorates during a transitional period on change of employer or sector.
3. As in other spheres of agreement, there may be information problems. The schemes are not easy to overview and this means

that people make decisions that they might not have made had they had access to better information.

4. Another more general question is the effects of the higher benefit provided by the various supplementary systems on the incentive to job search. Does it affect the duration of unemployment?

The existence of the supplementary schemes has not in practice been taken into account in the research in this field. In empirical analyses of the effects of unemployment benefit on search behaviour and the duration of unemployment, it is often assumed that benefit from the unemployment insurance is the only benefit. However, there are a number of other forms of benefit for those who become unemployed after being given notice. This can complicate the analysis by knowledge also being required about these schemes but at the same time, it means greater variation which facilitates studies of the effects of variations of benefit levels and benefit periods.

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## **Appendix to chapter 2. Reasons for giving notice**

AEA (The Unemployment Fund for Graduates in Sweden) determines whether the reasons for giving notice are valid.

Valid reasons for giving notice to leave employment are as follows:

- If you do not receive the wage that you agreed with the employer.
- If your work makes you ill and it is not possible to arrange a transfer to other work.
- If the person you live with obtains permanent work or at least a one-year period of study at a place you cannot commute from to your present job. In this case, a probationary employment is considered as permanent employment.
- If the workplace moves to a new place which you cannot commute or move to.
- If you are bullied or harassed at work and, it has not been possible to remedy the problem despite measures having been taken.

Examples of common reasons for the employee giving notice, which are not valid reasons and which have resulted in disqualification:

- That you have a long way to travel to work.
- That you have not been promoted in the way you wished.
- That you have not been given the tasks you wished for or had been promised.
- That you did not receive the requested wage increase.
- That you feel generally bad.
- That you are over-qualified or under-qualified for your duties.
- That you have a bad boss or management.

# Chapter 3 Occupational injury benefit<sup>27</sup>

## 3.1 Financial compensation for occupational injury

Benefit for occupational injury can be organised in many different ways. There are arguments for benefit being paid by the employer. The costs for occupational injuries can be regarded as part of the costs of production. This speaks in favour of the employer having to pay the whole cost, thus giving the employer a strong incentive to prevent occupational injuries. There are not the same arguments against employer responsibility as for health insurance, namely that this responsibility could lead to people with poor health not being employed (see Chapter 4). If companies refrain from employing people who run a great risk of incurring occupational injuries, this is rather an advantage.

However, there are arguments against full employer responsibility for occupational injuries. A person afflicted by an occupational injury needs benefit regardless of the company's ability to pay. Protection is needed against the company becoming bankrupt or otherwise incapable of paying. Total employer responsibility also means that random events that are not related to deficiencies in the working environment at the particular workplace where the occupational injury occurs can have serious financial consequences, in particular for small businesses. There are also great problems in allocating the costs for occupational diseases to different employers if the person affected has had several employers. This argues in favour of insurance solutions in the form of either social insurance, agreement-based insurance or other compulsory insurance cover.

There are accordingly arguments in favour of employer responsibility and also arguments for insurance. There are great differences in the frequency of occupational injuries between industries and occupations. This argues in favour of differentiated premiums to avoid safer industries and occupations subsidising less safe industries and occupations. In this way too, we may obtain a

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<sup>27</sup> We would like to express our special gratitude to Alf Eckerhall, Confederation of Swedish Enterprise, Eva Karlsson Aldvin, PTK and Maria-Louise Strömgen, SACO for helpful comments on this chapter.

safer industrial and occupational structure. If the differences in the frequency of occupational injuries between different employers within an industry are systematic or if individual employers can take measures to affect the number and type of occupational injuries, this is an argument in favour of employer responsibility of a greater or lesser extent. One method is to let the premium vary according to the extent of previous occupational injuries ("experience rating").

Another problem is to establish which injuries are occupational injuries and which have occurred for other reasons. Many injuries can easily be identified as occupational injuries caused by unsatisfactory conditions at the workplace. In other cases, it concerns injuries that are work-related but which have been caused by the employee, for instance, by the latter not complying with safety regulations. In still other cases, the injury is due to a combination of circumstances related both to work and leisure. It may also be the case that the injury has been caused by circumstances outside work but is of such a kind that it could have arisen at work. The listing of different cases indicates the difficulty of distinguishing between what is an occupational injury and what is not. The principles for establishing what an occupational injury is have varied over time partly through the burden of proof being placed on the employer at times and at other times on the employee, and partly through the changes in the criteria for establishing whether something is to be categorised as an occupational injury.

There are some very good arguments for compensation for occupational injury, although it is not self-evident how the matter is to be solved organisationally, how it is to be financed and what is to be considered to be an occupational injury. In the following presentation, we describe the development to date in Sweden and the existing combination of social insurance and agreement-based compensation.



### 3.2 Development of occupational injury insurance<sup>28</sup>

Occupational injury insurance is the oldest type of social insurance in Sweden. The first initiative to legislation in this field was taken by S.A. Hedin in a parliamentary private member's bill in 1884. However, it took time to obtain a majority for legislation, the 1901 Compulsory Benefit Act. According to this Act, benefit was to be paid by the employer to a person who had been injured by an accident at work mainly in industry. The employer was thus to pay although the obligation to pay benefit could be avoided by taking out insurance in a special national insurance body (RFA).

The 1901 Compulsory Benefit Act was criticised for providing inadequate protection and it was replaced in 1916 by the Accidents at Work Act (AA), according to which employers were obliged to take out insurance. Unlike the previous Act, it also covered the whole of the labour market and the benefit was income-related. Income compensation was paid at two-thirds of the previous work income. The Accidents at Work Act was the first universal, income-related social insurance provision in Sweden. This is the form of social insurance that has come to typify the Scandinavian model and which is usually stated as originating in the 1950s.

In 1929, the Insurance for Certain Occupational Diseases Act, IA, was promulgated, which expanded insurance to cover some diseases which were not caused by accidents but which were work-related. AA and IA were replaced by the Occupational Injury Insurance Act, OL, in 1955. Contributions were differentiated until 1972 after which they were uniform. OL was replaced in 1977 by a new Occupational Injury Insurance Act, OIA.

The introduction of OIA (SFS 1976:380) meant that a general concept of occupational injury was introduced. In principle, this meant that all injuries and diseases caused by accidents or other harmful effects at work were entitled to benefit under OIA.

In the event of occupational injury, the insured person was entitled to the same benefits from the health insurance scheme as for other diseases for at most 90 days (the so-called co-ordination period) after the injury had occurred. If, after the end of the co-ordination period, the ability of the insured to earn income through work continued to be reduced by at least 50 per cent due to illness, sickness benefit was paid from the occupational injury

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<sup>28</sup> This section is based on Edebalk (1993), Wadensjö and Sjögren (2000), RFV Vägledning 2003:4 and SFS 1976:380 as amended up to and including SFS 2004:783.

insurance scheme (also referred to as occupational injury benefit). Full sickness benefit was paid if the insured totally lacked the capacity to obtain an income from work, otherwise 50 per cent benefit. Full sickness benefit was paid as a daily allowance of 1/365 of the annual income on which sickness benefit entitlement is based up to 7.5 base amounts. Accordingly, occupational injury insurance provided benefit of 100 per cent for parts of wage under 7.5 base amounts.

In the event of a permanent reduction of at least 1/15 of work capacity, the insured could be entitled to an annuity. The annuity was calculated according to the insured person's basis for annuity, which was the same as the annual income on which sickness benefit entitlement was based. The annuity that provided compensation for work-related loss of income was paid at 100 per cent of the annuity basis up to 7.5 base amounts. For students, the annuity basis consisted of the income the person would have received if they had stopped studying when the injury occurred and started paid employment. The annuity basis for the period after the end of education consisted of the income from paid employment that the insured would then probably have received had the injury not occurred.

OIA also provided benefit for medical care, dental treatment, special aids etc. and survivor's benefit in the event of death in the form of annuity and funeral benefit. These benefits will not be taken up in detail here.

No major legislative changes took place from the introduction of OIA until the 1990s. From 1 July 1990, new benefit levels were introduced in occupational injury benefit – three-quarters and one quarter benefit. Work capacity that was reduced by a quarter was also to provide entitlement to benefit (previously, work capacity had to be reduced by at least a half for benefit entitlement). From 1 January 1992, the co-ordination period was extended from 90 to 180 days.

In 1993, more restrictive rules were introduced. The possibilities for obtaining benefit were reduced and the level of benefit decreased. From 1 January 1993, the conditions were made more stringent. It had to be established that the working environment "with a *high level of probability* could have given rise to injury" (it had previously been sufficient that it "could probably have given rise to the injury") and there must be predominant reasons that the working environment had actually caused the injury for benefit to

be paid. Injuries of a psychosomatic character due to company closures, labour disputes, insufficient appreciation of work performance, dissatisfaction with duties and comparable circumstances were no longer considered as being an occupational injury. On 1 July 1993, the special occupational injury benefit that provided 100 per cent of the annual income on which sickness benefit is based after the co-ordination period was abolished. The benefit from OIA would be paid in future in most cases only as an annuity. However, an exception was introduced for persons who were not entitled to sickness benefit from the health insurance scheme or did not have health insurance under the National Insurance Act. Exceptions were also made for certain students.

At the beginning of the 21<sup>st</sup> century, the rules for occupational injury have again been made less stringent. On 1 July 2002, the proof rule was again changed with the motivation that its application had been perceived as too restrictive and that the requirements for an illness being approved as an occupational injury were too hard. Special occupational injury benefit, which compensates for loss of income in qualifying days in the health insurance scheme for occupational injury, was introduced on 1 January 2003. Other changes that were implemented at this time were an indexation of annuity, co-ordination of annuity, sickness benefit and sickness and activity compensation and that annuity is to be granted when the capacity to obtain an earned income is permanently reduced or can be assumed to persist for at least a year.

### **3.3 Benefit for occupational injury in accordance with the 2005 Occupational Injury Act (OIA) in 2005<sup>29</sup>**

All of those gainfully employed (employees and self-employed) and also those in education (or a labour market training programme which entitles to activity support) with which special risk for occupational injury are attached are insured for occupational injury. Occupational injury is defined as an injury due to an accident at or on the way to or from work, or another harmful effect of work, work-related diseases which have occurred because of harmful factors in the working environment which can

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<sup>29</sup> This section is based on RFV Vägledning 2003:4 and SFS 1976:380 including amendments up to SFS 2004:783.

have a negative effect on physical or mental health (for example, heavy or monotonous work, vibrations or shaking, noise, various substances and working conditions that entail mental strain) as well as some infectious diseases such as jaundice and nosocomial infections. Examples of conditions that are not considered as an occupational injury are diseases of a mental or psychosomatic character due to company closures, insufficient appreciation of work performance and dissatisfaction with work tasks or colleagues.

In the event of occupational injury, the insured is entitled to the same benefits from health insurance as in illness (see Chapter 4). Special occupational injury benefit is paid for qualifying days in the sickness insurance scheme. If work capacity is reduced to at least a fifteenth and is permanent or can be assumed to persist for at least a year, the insured can receive an annuity. The annuity covers loss of income up to 7.5 price base amounts.

In the assessment of the ability of the insured to obtain an income from work, consideration shall be given to what can be reasonably demanded from the insured taking into account the occupational injury, his or her education and training and previous activity, age, residential and other circumstances. As regards older insured persons, consideration shall be given to their ability to obtain continued income in such work as the insured person has previously carried out or from other suitable work available for the insured. A person with an annuity is obliged to notify any changed circumstances that can affect benefit.

### **3.4 Historical background on agreement-based compensation schemes for occupational injury<sup>30</sup>**

There have been social benefits for occupational injury for a long time in agreements between the social partners. A study by Gösta Bagge (1911) showed that 67 per cent of the non-salaried employees covered by the collective agreements of 1908 were covered by collective agreements on occupational accident benefit or occupational accident insurance and 27 per cent by agreements on some kind of sickness benefit. In 1916, 752 collective agreements were made covering 117,358 persons. Of these collective

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<sup>30</sup> This section is based on Edebalk (1993) and Edebalk and Wadensjö (1989).

agreements 670 (89 per cent) included an agreement on accident insurance covering 109,183 persons (93 per cent).<sup>31</sup>

Legislation meant that the agreement-based benefits were replaced by benefits from the social insurance scheme. However, the demand for supplementary cover did not completely disappear. During the latter 1960s, discussions were initiated on benefit for occupational injury within the LO unions, which had claimed for a long time that the financial consequences of work-related accidents must be borne by industry. Health and occupational injury insurance did not provide complete compensation for loss of income: the injured employee was not placed in the same financial situation as if the injury had not taken place. Full benefit was only paid if the prerequisites for payment of damages were met.

At the LO congress in 1971, it was noted that occupational injury insurance was being investigated and that a reinforcement of this insurance scheme was considered possible. However, agreements started to be made at the same time on supplementary benefits. The first agreement-based no-fault liability insurance was introduced in 1971 and applied to stevedorers. Shortly afterwards, agreements on no-fault liability insurance were concluded for sheet metal and plate workers and for miners. The reinforced no-fault liability insurance for occupational injury was intended to enable an affected person to obtain benefit in accordance with the norms for damages without having to show that the employer was liable to pay damages. For employees, knowing that compensation would be paid provided security. For employers, it was advantageous to avoid expensive legal proceedings with an uncertain outcome.

Central negotiations on no-fault liability insurance were initiated in 1973 and SAF, LO and PTK concluded an agreement on no-fault liability insurance for occupational injury, TFY in 1974. All municipal and county council employees were also covered by the insurance scheme. Central government employees had personal injury insurance which was renegotiated resulting in the Personal Injury Agreement, PSA, 1986.

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<sup>31</sup> See Edebalk (1993).

In 1977 when the new Occupational Injury Insurance Act, OIA, came into effect, certain consequential amendments were made to no-fault liability insurance, which was then called No-fault Liability Insurance for Occupational Injury, TFA. Among the most important changes was the expanded definition of the concept of occupational injury where all work-related diseases provided entitlement to benefit and not only accidents at work, accidents during travel and certain diseases. These changes were also introduced into the agreements.

### **3.5 Agreement-based occupational injury compensation in 2005**

The benefit from occupational injury insurance is supplemented for the majority of employees by some form of agreement-based insurance in the collective agreements. This agreement-based insurance is administered by AFA which is a joint organisation for the insurance companies AFA Sjukförsäkring, AFA Trygghetsförsäkring and AFA Livförsäkring. White-collar and blue-collar workers within the spheres of agreement of the Confederation of Swedish Enterprises, Co-operations, LO and PTK are covered by no-fault liability insurance, TFA. For central government employees, there is a similar agreement on benefit in the event of personal injury, the Personal Injury Agreement PSA, while employees in municipalities, county councils and parishes are covered by no-fault liability insurance TFA-KL for occupational injury.

The agreement-based compensation schemes provide the same level of benefit in the event of loss of income due to occupational injury during periods of acute illness and permanent invalidity in the different spheres of agreement. The agreements may differ for benefits for, for instance, doctor's and medical care costs, damage to spectacles, dentures and hearing aids as well as additional expenses for home help, destroyed clothing, etc. Only benefit for loss of income is dealt with here.

## Benefit for loss of income during the period of acute illness

Occupational injury due to accident entitles to benefit only if the incapacity to work lasts for over 14 days or results in permanent invalidity. No benefit is provided for loss of income during the period of acute illness for occupational injury arising from an accident when travelling. In the case of illness due to the harmful effect of work in accordance with the ILO list in the Appendix to Chapter 3 the insured can receive benefit only in the event of negligence by the employer which is considered by the Negligence Board at the initiative of the employee.

In the event of occupational injury due to accident with duration of 15 days or more, benefit is provided during the period of sick wage and sickness benefit in accordance with Table 3.1. Benefit is paid during the period of sick wage and sickness benefit and sickness compensation and activity compensation but not for periods with annuity.

**Table 3.1** Benefit for loss of income during the period of acute accident in accordance with PSA, TFA-KL and TFA

| <i>Day of illness</i>                 | <i>Benefit from agreement-based insurance</i>                 |
|---------------------------------------|---|
| First day of illness (qualifying day) | Full loss of income   |
| Day 2–14                              | 20 % of SGI + 100 % of wage parts over 7.5 price base amounts |
| Day 15–90                             | 10 % of SGI + 100 % of wage parts over 7.5 price base amounts |
| Day 91–                               | 20 % of SGI + 100 % of wage parts over 7.5 price base amounts |

## Loss of income on invalidity

If future loss of income can be assumed to occur in the event of permanent invalidity, benefit is paid for this future loss in the form of annuity. Benefit from OIA is paid only if the occupational injury entails a reduction in capacity of at least 1/15 and at most for wage parts up to 7.5 price base amounts. This does not apply for agreement-based insurance, annuity then being paid even if the reduction in capacity is less than 1/15. An example: if the injury entails a reduction by 1/30 annuity is paid equivalent to 1/30 of the

wage that the insured person had when the injury occurred. For those with a wage of over 7.5 price base amounts annuity is paid at 100 per cent of loss of income for wage parts above 7.5 price base amounts. The annuity is reduced to half when the insured attains the age of 65.

### **3.6 Development of the number of occupational injury annuities**

Table 3.2 shows the number of recipients of annuity from the social insurance scheme between 1999 and 2003. The total number of annuities paid per year has decreased slightly from 90,841 in 1999 till 88,053 in 2003, which is a reduction of 3 per cent. Most recipients of occupational annuity are in the age groups 55–59 and 60–64. They account for almost 50 per cent of all recipients of annuity during the period studied. Half of the recipients of annuity are women in these age groups. Men predominate among the recipients in the younger age group.



**Table 3.2** Number of recipients of annuity who receive annuity from occupational injury insurance in accordance with the Occupational Injury Insurance Act, December 1999–2003. Proportion of women in brackets

| <i>Age</i> | <i>1999</i>    | <i>2000</i>    | <i>2001</i>    | <i>2002</i>    | <i>2003</i>    |
|------------|----------------|----------------|----------------|----------------|----------------|
| –19        | 0              | 0              | 0              | 0              | 0              |
| 20–24      | 35<br>(23)     | 38<br>(24)     | 43<br>(21)     | 36<br>(28)     | 31<br>(35)     |
| 25–29      | 313<br>(28)    | 280<br>(25)    | 265<br>(23)    | 254<br>(29)    | 233<br>(31)    |
| 30–34      | 1,576<br>(36)  | 1,385<br>(38)  | 1,205<br>(38)  | 1,042<br>(38)  | 888<br>(36)    |
| 35–39      | 3,116<br>(35)  | 3,052<br>(37)  | 2,972<br>(36)  | 2,883<br>(37)  | 2,822<br>(38)  |
| 40–44      | 4,899<br>(39)  | 4,731<br>(38)  | 4,543<br>(38)  | 4,473<br>(38)  | 4,431<br>(39)  |
| 45–49      | 7,830<br>(45)  | 7,477<br>(44)  | 7,289<br>(44)  | 7,107<br>(43)  | 6,909<br>(42)  |
| 50–54      | 13,746<br>(49) | 13,193<br>(49) | 12,327<br>(48) | 11,602<br>(47) | 11,126<br>(47) |
| 55–59      | 18,396<br>(51) | 18,498<br>(50) | 18,566<br>(50) | 18,436<br>(49) | 18,728<br>(49) |
| 60–64      | 25,250<br>(49) | 24,507<br>(49) | 23,972<br>(50) | 23,675<br>(49) | 24,435<br>(49) |
| 65–69      | 7,683<br>(54)  | 6,932<br>(52)  | 6,440<br>(52)  | 5,783<br>(49)  | 4,868<br>(49)  |
| 70–74      | 6,629<br>(59)  | 7,414<br>(57)  | 7,935<br>(57)  | 7,626<br>(57)  | 7,883<br>(57)  |
| 75–79      | 1,243<br>(57)  | 1,914<br>(59)  | 2,688<br>(61)  | 3,515<br>(61)  | 5,021<br>(63)  |
| 80–84      | 116<br>(41)    | 171<br>(51)    | 259<br>(49)    | 345<br>(57)    | 628<br>(58)    |
| 85–89      | 9<br>(33)      | 21<br>(33)     | 28<br>(39)     | 31<br>(42)     | 50<br>(50)     |
| 20–89      | 90,841         | 89,613         | 88,532         | 86,808         | 88,053         |

*Source:* National Social Insurance Board statistics.

Table 3.3 shows the average annuity which is paid (the extent of invalidity varies and benefits paid to an individual depends on the income the person had and the extent of invalidity). The average annuity is calculated by the total amount of occupational injury annuity being divided by the number who receive annuity. The annuity has been recalculated to 2003's prices with the aid of the consumer price index. The total sum of interest payments has

increased by 3 per cent between 1999 and 2003, from almost SEK 4.2 billion to almost SEK 4.3 billion per year. The average payment per insured person has increased by 6 per cent, from SEK 3,842 to SEK 4,064 per month.

The younger insured persons have on average most benefit, varying between SEK 10,714 and 12,233 per month and individual during the period 1999 to 2003. The average occupational injury annuity is lower for older persons than for younger. One explanation may be that an older person is granted occupational injury annuity for a lower extent of invalidity and thus receives lower benefit. Another explanation is that older persons have received their annuity earlier when incomes were lower.

**Table 3.3 Average annuity per month paid from social insurance. Total occupational injury annuity paid per year in brackets expressed in 2003's prices**

| <i>Age</i> | <i>1999</i>              | <i>2000</i>              | <i>2001</i>              | <i>2002</i>              | <i>2003</i>              |
|------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 20–24      | 10,714<br>(4,500,000)    | 11,871<br>(5,410,000)    | 12,233<br>(6,312,000)    | 12,203<br>(5,272,000)    | 10,661<br>(3,966,000)    |
| 25–29      | 6,506<br>(24,437,000)    | 7,478<br>(25,128,000)    | 8,769<br>(27,888,000)    | 8,872<br>(27,042,000)    | 8,685<br>(24,283,000)    |
| 30–34      | 5,258<br>(99,443,000)    | 5,559<br>(92,398,000)    | 6,181<br>(89,378,000)    | 6,628<br>(82,885,000)    | 7,218<br>(76,910,000)    |
| 35–39      | 4,853<br>(181,470,000)   | 5,102<br>(186,855,000)   | 5,418<br>(193,214,000)   | 5,685<br>(196,679,000)   | 5,813<br>(196,850,000)   |
| 40–44      | 4,515<br>(265,426,000)   | 4,715<br>(267,646,000)   | 4,887<br>(266,394,000)   | 5,137<br>(275,721,000)   | 5,321<br>(282,928,000)   |
| 45–49      | 4,308<br>(404,759,000)   | 4,437<br>(398,148,000)   | 4,545<br>(397,528,000)   | 4,748<br>(404,918,000)   | 4,894<br>(405,731,000)   |
| 50–54      | 4,223<br>(696,530,000)   | 4,342<br>(687,461,000)   | 4,426<br>(654,731,000)   | 4,584<br>(638,204,000)   | 4,706<br>(628,312,000)   |
| 55–59      | 4,281<br>(945,073,000)   | 4,368<br>(969,613,000)   | 4,412<br>(982,999,000)   | 4,579<br>(1,012,878,000) | 4,691<br>(1,054,193,000) |
| 60–64      | 4,542<br>(1,376,228,000) | 4,574<br>(1,344,961,000) | 4,576<br>(1,316,457,000) | 4,702<br>(1,335,931,000) | 4,799<br>(1,407,120,000) |
| 65–69      | 973<br>(86,391,000)      | 880<br>(73,238,000)      | 856<br>(66,111,000)      | 879<br>(61,050,000)      | 871<br>(50,925,000)      |
| 70–74      | 1,084<br>(86,215,000)    | 1,067<br>(94,910,000)    | 1,023<br>(97,505,000)    | 1,011<br>(92,510,000)    | 962<br>(90,992,000)      |
| 75–79      | 1,068<br>(15,918,000)    | 1,087<br>(24,971,000)    | 1,056<br>(34,066,000)    | 1,043<br>(43,979,000)    | 1,056<br>(63,632,000)    |
| 80–84      | 1,089<br>(1,517,000)     | 1,081<br>(2,218,000)     | 1,019<br>(3,168,000)     | 1,071<br>(4,434,000)     | 1,066<br>(8,034,000)     |
| 85–89      | 1,197<br>(129,000)       | 901<br>(227,000)         | 1,079<br>(362,000)       | 904<br>(336,000)         | 1,083<br>(650,000)       |
| 20–89      | 3,842<br>(4,188,038,000) | 3,880<br>(4,173,186,000) | 3,893<br>(4,136,113,000) | 4,015<br>(4,181,839,000) | 4,064<br>(4,294,526,000) |

Source: National Social Insurance Board's statistics.

### 3.7 Conclusions

The benefit in the event of occupational injury from agreement-based compensation schemes is unique compared with agreement-based compensation schemes otherwise in the sense that it is intended to compensate for the whole loss of income. It has been considered reasonable from the point of view of the trade unions

that an employee who is injured at work shall not suffer financial loss because of this. A driving force for the employers to accept this kind of system is that they can avoid legal proceedings on occupational injuries in this way. By obtaining complete compensation, employees undertake as a collective not to engage in this type of proceedings. The basic principles for the overall system are accordingly clear although there are some matters which are worth discussing.

An initial question is the extent of the individual employer's responsibility. At present, there is no individual employer responsibility either in the social insurance scheme or in agreement-based compensation schemes for occupational injuries (apart from what is provided by co-ordination with health insurance). At the same time, this is perhaps the area of social insurance and occupational compensation where there are the strongest arguments for and the weakest arguments against individual employer responsibility. Two types of such responsibility can be envisaged. One, which perhaps should not be called employer responsibility, is charges differentiated according to the costs for occupational injuries in the respective industry. While some differentiation does exist due to agreement-based insurance being sector-based, there is no differentiation within social insurance or within the respective agreement-based insurance. A differentiation can lead to a fairer distribution of the costs for different types of activities and to a shift in activities in the direction of safer activities. Since the costs of occupational injuries are relatively small compared with the total labour costs, we should not anticipate any major effects, however. The other type of employer responsibility is for the individual employer's contribution to insurance to vary to some extent with the extent of occupational injuries at the workplace and according to the costs they have entailed (in addition to the cost arising from co-ordination with health insurance). Such experience rating would provide the employer with a stronger incentive to undertake measures to prevent occupational injuries.

As previously mentioned, benefits provide total compensation for loss of income in the event of occupational injury. The income on which the benefit is based is the income then current (or the predicted income for the student). This means that the outcome can differ viewed in a life income perspective depending on the phase of the occupational career in which a person is when the

accident occurs. The persons who are in a phase of their occupational career when they have a low income or who temporarily have a low income when the occupational injury occurs may receive low compensation. On the other hand, those who are in a phase of their occupational career when they have a high income or temporarily have a high income for some reason when the occupational injury incurs may receive high compensation in a life income perspective. This can lead to locking-in effects in the insurance and dependency on allowances for those who receive high income compensation in a life-income perspective. If they return to the labour market after an occupational injury, their wage may be lower than the compensation they receive from insurance.

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## Appendix to Chapter 3. Diseases that confer entitlement to benefit

### ILO list of diseases that confer entitlement to benefit

| <i>Occupational diseases</i>  | <i>Work involving exposure to risk</i>             |
|---|--|
| Pneumoconioses caused by sclerogenic mineral dust (silicosis, anthracosilicosis, asbestosis) and silicotuberkulos, provided that silicosis is an essential factor in causing the resultant incapacity or death. | All work involving exposure to the risk concerned. |
| Bronchopulmonary diseases caused by hard-metal dust.  | All work involving exposure to the risk concerned. |
| Bronchopulmonary diseases caused by cotton dust (byssinosis) or flax, hemp or sisal dust.   | All work involving exposure to the risk concerned. |
| Occupational asthma caused by sensitising agents or irritants both recognised in this regard and inherent in the work process. <sup>1</sup>   | All work involving exposure to the risk concerned. |
| Extrinsic allergic alveolitis and its sequelae caused by the inhalation of organic dust particles, as prescribed by national legislation.   | All work involving exposure to the risk concerned. |
| Diseases caused by beryllium or its toxic compounds.  | All work involving exposure to the risk concerned. |
| Diseases caused by cadmium or its toxic compounds.  | All work involving exposure to the risk concerned. |
| Diseases caused by phosphorus or its toxic compounds.   | All work involving exposure to the risk concerned. |
| Diseases caused by chromium or its toxic compounds.   | All work involving exposure to the risk concerned. |
| Diseases caused by manganese or its toxic compounds.  | All work involving exposure to the risk concerned. |
| Diseases caused by arsenic or its toxic compounds.  | All work involving exposure to the risk concerned. |
| Diseases caused by mercury or its toxic compounds.  | All work involving exposure to the risk concerned. |
| Diseases caused by lead or its toxic compounds.   | All work involving exposure to the risk concerned. |
| Diseases caused by fluorine or its toxic compounds.   | All work involving exposure to the risk concerned. |
| Diseases caused by carbon disulphide.   | All work involving exposure to the risk concerned. |
| Diseases caused by the toxic halogen derivatives of aliphatic or aromatic hydrocarbons.   | All work involving exposure to the risk concerned. |

| <i>Occupational diseases</i>   | <i>Work involving exposure to risk</i>   |
|--|--|
| Diseases caused by benzene or its toxic homologues.  | All work involving exposure to the risk concerned.   |
| Diseases caused by toxic amino- and nitroderivatives of benzene or its homologues.   | All work involving exposure to the risk concerned.   |
| Diseases caused by nitro-glycerine or other nitric acid esters.  | All work involving exposure to the risk concerned.   |
| Diseases caused by alcohols, glycols or ketones.   | All work involving exposure to the risk concerned.   |
| Diseases caused by asphyxiants: carbon monoxide, hydrogen cyanide or its toxic derivatives, hydrogen sulphide.   | All work involving exposure to the risk concerned.   |
| Hearing impairment caused by noise. <sup>2</sup>   | All work involving exposure to the risk concerned.   |
| Diseases caused by vibration (disorders of muscles, tendons, bones, joints, peripheral blood vessels or peripheral nerves). <sup>3</sup>                       | All work involving exposure to the risk concerned.   |
| Diseases caused by work in compressed air.   | All work involving exposure to the risk concerned.   |
| Diseases caused by ionising radiations.  | All work involving exposure to the action of ionising radiations.  |
| Skin diseases caused by physical, chemical or biological agents not included under other items.  | All work involving exposure to the risk concerned.   |
| Primary epitheliomatous cancer of the skin caused by tar, pitch, bitumen, mineral oil, anthracene, or the compounds, products or residues of these substances. | All work involving exposure to the risk concerned.   |
| Lung cancer or mesotheliomas caused by asbestos.   | All work involving exposure to the risk concerned.   |
| Infectious or parasitic diseases contracted in an occupation where there is a particular risk of contamination.  | a) Health or laboratory work.<br>b) Veterinary work.<br>c) Work handling animals, animal carcasses, parts of such carcasses, or merchandise which may have been contaminated by animals, animal carcasses, or parts of such carcasses.<br>d) Other work carrying a particular risk of contamination. |

<sup>1</sup> Including asthma caused by "sick buildings" but not other illnesses caused thereby.

<sup>2</sup> Also includes tinnitus and/or hyperacusia (sensitivity to sound) not combined with hearing impairment.

<sup>3</sup> Also includes carpal tunnel syndrome caused by vibration.





## Chapter 4 Sickness benefit<sup>32</sup>

### 4.1 Benefit for sick leave<sup>33</sup>

Benefit for sick leave has a longer tradition than any of the other social insurance schemes. The first national health insurance fund was established for printers as early as 1754. Illness threatened the ability to support oneself and one's family. The financial consequences could be limited by insurance. Different occupational groups subsequently established health insurance funds and there were also open health insurance funds, which people from all occupations were able to join. The activity was unregulated for a long time but in 1891 the first Health Insurance Fund Act was passed according to which financial support was paid to the funds that registered and undertook on registration to comply with certain rules. The grant was subsequently increased which led to an increasing number of funds registering. A new Health Insurance Fund Act of 1910 required the funds to have a minimum size, which led to many funds merging. Membership of a health insurance fund was still voluntary. The next reform was in 1931 which led to the funds being organised in local funds for shorter periods of sick leave and central health insurance funds (covering one or more county council areas) for longer periods of leave. A more radical reform of health insurance took place in 1955 and membership became compulsory with benefit based on the income replacement principle. In 1962, the system was reorganised – the health insurance funds became social insurance offices. The present organisation remains substantially the same, although the social insurance offices and the National Social Insurance Board (Riksförsäkringsverket) have been merged into a single agency, the Swedish Social Insurance Agency (Försäkringskassan) from 1 January 2005.

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<sup>33</sup> This section is based on Edebalk (1996), Edebalk (2005) and Edebalk and Wadensjö (1989).

For many people, sickness benefit was previously organised in another way than health insurance funds. White-collar workers as a rule received benefit in the form of sick pay and when membership of a health insurance fund was made compulsory in 1955, the employer covered what was lacking for full compensation including benefit during qualifying days. Those who lacked supplementary benefit were blue-collar workers in the private sector (with the exception of wholesale and retail trade employees). LO and SAF made an agreement on supplementary benefit of this kind for them in 1972 – Group Health Insurance (AGS). This meant that the majority of employees in the Swedish labour market were covered by supplementary benefit although the compensation level varied.

During the 1980s, many had full income compensation in the event of illness. There are arguments in favour of individuals wanting to have insurance cover that provides this compensation level since living expenses are more or less the same during illness as otherwise. However, there are incentive problems with full income compensation. It can lead to some people deciding to be away from work even when they are not ill. The existence of this type of problem is an argument for introducing and reinforcing control systems, but also an argument for less than full compensation. A lower compensation level can be achieved by the daily benefit being less than 100 per cent, and by the introduction of qualifying days.

In this chapter, we will present the social insurance schemes in the area and the various agreement-based insurance schemes or benefits provided for by agreements, and subsequently compare the levels of compensation in the different areas. There is also member insurance in this area, which we will not take up here, however.

## **4.2 The development of health insurance since the 1960s<sup>34</sup>**

From 1963, sickness benefit was paid to a person who was insured at an insurance office in accordance with the National Insurance Act (1962:381). The sickness benefit amount was based on income and the insured were placed in different sickness benefit classes on

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<sup>34</sup> This section is based on SFS 1962:381 as amended up to 1 January 2005 and SFS 1991:1047 as amended until 1 January 2005.

the basis of income. The lowest sickness benefit was SEK 6 per day, which applied for those with an annual wage of between SEK 1,800 and 2,600. The highest was SEK 52 per day paid to those with an annual wage exceeding SEK 39,000. Sickness benefit was not taxed between 1955 and 1973.

The benefit level for sickness benefit was changed on 1 January 1974 to 90 per cent of SGI (annual income on which sickness benefit entitlement is based) up to 7.5 base amounts. This change was related to the sickness benefit being subject to tax from that date. This level was retained until the 1990s. During the 1990s, the rules were changed on repeated occasions, however. A gradual deterioration of conditions took place. These changes were justified by the increasing amount of sick leave and the economic crisis. In 1991, the level of benefit was reduced to 65 per cent of SGI for the first three days of the period of sick leave and to 80 per cent from day 4 to day 90. After that, benefit amounting to 90 per cent of SGI was paid.

A new sickness benefit system was introduced on 1 January 1992. The employer was now to be responsible for the whole cost during the first 14 days of a period of sick leave by paying sick pay. Benefit during the three first days amounted to 75 per cent of the wage (including employment benefits). The employer was to pay 90 per cent of the wage in sick pay from day 4 to 14. Benefit from health insurance provided for in collective agreements that the employer paid to the employee was treated as sick pay from the employer. The social insurance office took over from the fifteenth day of illness and paid benefit of 80 per cent of SGI. If an employee suffered from an illness that could be expected to lead to a large number of periods of illness with entitlement to sick pay during a twelve-month period, the social insurance office could decide to compensate the employer for the costs of sick pay. If the employee fell ill again within five days, the two periods of sick pay were regarded as a single period and the employer was responsible for benefit for a total of at most 28 days.

Employers with combined annual wage costs below a certain number of base amounts could insure themselves at the social insurance office for the costs of sick pay. The base amount threshold was changed in steps from 60 to 90 to 130 base amounts.

A qualifying day was introduced in sick pay on 1 April 1993. In the event of illness, the insured person first had a qualifying day, then benefit of 75 per cent of the wage for day 2–3 and 80 per cent

for day 4–14 from the employer. Sickness benefit was subsequently paid by the social insurance office at 80 per cent of SGI until the 365th day of illness and thereafter at 70 per cent of SGI.

At the same time, rules were introduced on how large the supplementary benefit from the employer was permitted to be. The method used was that benefit from the insurance office was reduced if the supplementary benefit exceeded a certain level. If sickness benefit from the employer, for example through collective agreements, exceeded more than 10 per cent of the wage during the period of sick leave, the sickness benefit was reduced by the excess portion for those with an annual wage below 7.5 price base amounts for sick day 15–90. For those with an annual wage that exceeded 7.5 price base amounts, benefit from the social insurance office was reduced so that the total sickness benefit (for example, through collective agreement) did not exceed 90 per cent for sick day 15–90, 80 per cent for sick day 91–365 and 70 per cent for the subsequent period (see SFS 1992:1702). From 1 July 1994, a deduction could also be made for other taxable benefits besides cash benefits. From 1 January 1997, deduction could again only be made for cash benefits.

The compensation level for sick pay was reduced again on 1 January 1996. The first day was still a qualifying day while benefit during the following 13 sick days was 75 per cent of the wage. Sickness benefit from the social insurance office from sick day 15 and subsequently was also reduced to 75 per cent of SGI. The total benefit was regulated by the same method as before. The benefit from the social insurance office was reduced for those with an annual wage exceeding 7.5 price base amounts so that the total sickness benefit was not more than 85 per cent for sick day 15–90 and 75 per cent for subsequent time.

On 1 January 1997, the sick pay period was extended to 28 days. The benefit from the social insurance office was decreased for those with an annual wage that exceeded 7.5 price base amounts so that the total sickness benefit from social insurance, agreement and sick pay did not exceed 85 per cent for sick day 29–90 and 75 per cent for the subsequent time.

On 1 January 1998, the sick pay was increased to 80 per cent of the wage. The first day was still a qualifying day. Sickness benefits from the social insurance office were increased to 80 per cent of SGI. The benefit from the social insurance office was decreased for those with an annual wage exceeding 7.5 price base amounts so that

the total sickness benefit from social insurance, in accordance with agreement and sick pay, did not exceed 90 per cent from sick day 29 and onwards.

The sick pay period was reduced to 14 days again on 1 April 1998. On 1 July 2003, the sick pay period was extended to 21 days. From 1 January 2005, the sick pay period is again 14 days.

### 4.3 Sick pay and sickness benefit in 2005<sup>35</sup>

A person who has been employed for at least a month or has worked for a consecutive period of 14 days is entitled to sick pay from the employer for the first 14 days of the sick period. The first day is a qualifying day. The sick pay for day 2–14 is 80 per cent of the wage and other employment benefits. The social partners can make provisions for the detailed calculation of sick pay through a collective agreement. An agreement of this kind is valid even if it can lead to a slightly lower wage than is provided for in the Sick Pay Act (1991:1047).

In the event of a period of sick leave exceeding 14 days, the employer notifies the social insurance office which will make an assessment of whether sickness benefit is to be paid. Sickness benefit is 80 per cent of SGI. Persons who are not entitled to sick pay can obtain sickness benefit from the social insurance office for the first 14 days as well. The first day is a qualifying date after which benefit is 80 per cent of SGI.

If the employee retains more than 10 per cent of the wage during the period of sick leave by agreement-based insurance or benefit agreement-based, the sickness benefit is reduced by the excess amount. The benefit from the social insurance office is reduced for those with income exceeding 7.5 price base amounts in such a way that the total sickness benefit from social insurance, agreement and sick pay does not exceed 90 per cent of the wage from sick day 15 and on.

In the event of a person falling ill again within five days, the new period of sick leave is regarded as a continuation of the old period. The insured person avoids a new qualifying day and the employer only needs to pay sick pay for a total of 14 days for both periods.

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<sup>35</sup> This section is based on RFV Vägledning 2004:2, information from [www.fk.se](http://www.fk.se) and SFS 1962:381 as amended until 1 January 2005.

There is also a general high-risk protection for those who are sick for a long time or often. The number of qualifying days is at most ten during a twelve-month period. If the insured is ill for more than ten periods, benefit will also be paid for the first day. There is a special high-risk protection for those with a medically well-documented illness which leads to a high level of sick leave (at least ten periods of absence from work per year or at least 28 consecutive days). This means that the individual does not have a qualifying day and that the social insurance offices compensate the employer for the whole sick pay cost.

Those who do not have any income or a low income can take out a voluntary sickness benefit insurance that provides a benefit of at least SEK 20 and at most SEK 60 per day. Insured persons with a low compulsory sickness benefit can take out insurance for a sickness benefit supplement, which, together with sickness benefit from the compulsory system can provide a benefit of at most SEK 60 per day. The general qualifying day also applies in the voluntary sickness benefit insurance, but when taking out a voluntary insurance, a qualifying day of three or 30 days can be chosen for a lower charge. After the age of 55, it is no longer possible to take out new insurance and the insured cannot shorten the qualifying period for existing insurance. The voluntary sickness benefit does not carry pension rights but it is tax-free.

The social insurance office shall, at the latest when an employee has been on sick leave for a year, investigate whether the preconditions are met to replace sickness benefit by disability pension. The case is to be taken up in the social insurance board for a decision on such benefit.

A new Special Health Insurance Charges Act (2004:1237) has been introduced. The new law gives employer greater financial responsibility for employees with full sickness benefit. Through the special health insurance charge, employers must pay part of the sickness benefit for employees on full sick leave. The special health insurance charge is 15 per cent of the sickness benefit paid by the social insurance office. The charge has been introduced to give employers an increased incentive to assist in reducing sick leave. If an employee has been granted special high-risk protection, the employer does not need to pay the special health insurance charge for sickness benefit for the employee. The employer does not either have to pay a special health insurance charge if the employee is on part sick leave, participates in rehabilitation and receives

rehabilitation benefit, receives preventive sickness benefit or a disability pension.

#### **4.4 Benefit in accordance with agreement in the event of illness**

As mentioned in the introduction to this chapter, agreement-based benefits in the event of illness have a long history, considerably longer than social insurance in this area. When the national health insurance scheme was introduced in 1955, the previous benefits were changed and co-ordinated with sickness benefit. One group, blue-collar workers in the private sector, lacked supplementary benefit. Supplementary benefit was subsequently also made available for this group. The co-ordination between agreement-based benefits and sickness benefit differed from area to area. In some areas, gross co-ordination took place – the level was determined in such cases wholly by the agreement-based benefit. The combined compensation level was often high but varied between areas. In conjunction with sickness benefit being reduced during the crisis in the early 1990s, rules were introduced on how much benefit was permitted from agreement-based benefits without sickness benefit being reduced.

In this area as in the majority of other areas there are four agreements that together cover the major part of the labour market. Furthermore, there is also group insurance in this area arranged by trade unions and private insurance cover. These are not dealt with here.

##### **4.4.1 Benefit in accordance with agreement in the event of illness – central government employees**

Sick pay for central government employees is regulated by the General Agreement on Wages and Benefits, ALFA. During the sick pay period, no additional supplement is paid in addition to statutory sick pay (SFS 1991:1047) of 80 per cent of the wage for sick day 2–14 for central government employees. However, the employee may receive additional benefit during the sick days with entitlement to sickness benefit from the social insurance office, i.e. from day 15 of the period of sick leave. During day 15–90,

employees with an annual wage of up to 7.5 price base amounts (equivalent to a monthly wage of SEK 24,625 in 2005) retain 10 per cent of their wage in the event of illness. After the 90th day, the employer pays no additional benefit to those with an annual wage of 7.5 price base amounts or less. Those with a wage over 7.5 price base amounts retain 10 per cent of wage portions below 7.5 price base amounts and 90 per cent above 7.5 price base amounts between day 15 and 90. From day 91 and on, they retain 0 per cent of wage portions up to 7.5 price base amounts and 80 per cent of wage portions above this limit.

**Table 4.1 Benefit per month in the event of illness: sick pay, sickness benefit and the central government agreement ALFA (amounts in SEK)**

| <i>Monthly wage</i>                            | <i>15,000</i>  | <i>30,000</i>  | <i>50,000</i>  |
|--|--|--|--|
| Sick pay (the employer)                        | 0 day 1<br>12,000 day 2–14<br>1,500 day 15–90                    | 0 day 1<br>24,000 day 2–14<br>7,300 day 15–90<br>4,300 day 91–   | 0 day 1<br>40,000 day 2–14<br>25,300 day 15–90<br>20,300 day 91– |
| Sickness benefit (the social insurance office) | 0 day 1–14<br>12,000 day 15–                                     | 0 day 1–14<br>19,700 day 15–                                     | 0 day 1–14<br>19,700 day 15–                                     |
| Total  | 0 day 1<br>12,000 day 2–14<br>13,500 day 15–90<br>12,000 day 91– | 0 day 1<br>24,000 day 2–14<br>27,000 day 15–90<br>24,000 day 91– | 0 day 1<br>40,000 day 2–14<br>45,000 day 15–90<br>40,000 day 91– |

*Note:* Before an employee has been on sick leave for a year, the social insurance office shall have investigated whether the prerequisites are met for replacing sickness benefit by disability pension. However, sickness benefit can be paid for more than a year.

#### **4.4.2 Benefit in accordance with agreement in the event of illness for employees of municipalities and county councils**

Employees of municipalities, county councils and parishes receive sick pay in accordance with the rules of the agreement General Regulations, AB05. During the sick pay period (sick day 1–14), benefit is paid in accordance with the Sick Pay Act (SFS 1991:1047) with a qualifying day and 80 per cent of the whole wage and certain wage benefits such as on-duty and stand-by benefit and supplements for work at unsocial hours. From the 15<sup>th</sup> to the 90<sup>th</sup>



sick day, the employer shall in accordance with the agreement pay the employee sick pay which together with sickness benefit from the social insurance office is equivalent to 90 per cent of the employee's wage.

Between the 91<sup>st</sup> and 360<sup>th</sup> sick day, benefit is paid at 10 per cent of portions of wage up to 7.5 price base amounts to the employee through AFA Försäkring in accordance with the Agreement-Based Health Insurance for employees of municipalities, county councils/regions, parishes et al, AGS-KL. This benefit is paid both to those with a wage below and above the ceiling. The agreement results in the replacement rate being 90 per cent of the wage between the 15<sup>th</sup> and the 360<sup>th</sup> sick day for those with a wage up to 7.5 price base amounts.

Those with a wage above 7.5 price base amounts receive sick pay from the employer from the 91<sup>st</sup> sick day for as long as sickness benefit is paid. Sick pay from the 91<sup>st</sup> sick day is equivalent together with sickness benefit to 80 per cent of the wage. During sick day 91–360, benefit is also paid from AFA at 10 per cent on portions of wages below 7.5 price base amounts which has led to the compensation level during sick day 91–360 being more than 80 per cent of the wage. The employees who have a wage above 7.5 price base amounts have altogether a compensation level of 90 per cent of the wage between the 15<sup>th</sup> and the 90<sup>th</sup> sick day. They have a compensation level of 80 per cent from the employer and sickness benefit and 10 per cent on wage parts below 7.5 price base amounts from AGS-KL from the 91<sup>st</sup> to the 360<sup>th</sup> sick day. The replacement rate is 80 per cent from the 361<sup>st</sup> sick day and for as long as sickness benefit is paid.

**Table 4.2 Benefit per month in the event of illness: sick pay, sickness benefit and the municipal agreement AGS-KL (amounts in SEK)**

| <i>Monthly wage</i>                        | <i>15,000</i>  | <i>30,000</i>  | <i>50,000</i>  |
|--|--|--|--|
| Sick pay (the employer)                    | 0 day 1<br>12,000 day 2–14<br>1,500 day 15–90                    | 0 day 1<br>24,000 day 2–14<br>7,300 day 15–90<br>4,300 day 91–                         | 0 day 1<br>40,000 day 2–14<br>25,300 day 15–90<br>20,300 day 91–                       |
| Sickness benefit from AGS-KL               | 1,500 day 91–360   | 2,463 day 91–360   | 2,463 day 91–360   |
| Sickness benefit (social insurance office) | 0 day 1–14<br>12,000 day 15–                                     | 0 day 1–14<br>19,700 day 15–   | 0 day 1–14<br>19,700 day 15–   |
| Total                                      | 0 day 1<br>12,000 day 2–14<br>13,500 day 15–90<br>12,000 day 91– | 0 day 1<br>24,000 day 2–14<br>27,000 day 15–90<br>26,463 day 91–360<br>24,000 day 361– | 0 day 1<br>40,000 day 2–14<br>45,000 day 15–90<br>42,463 day 91–360<br>40,000 day 361– |

*Note:* Before an employee has been on sick leave for a year, the social insurance office shall have investigated whether the prerequisites are met to replace sickness benefit by disability pension. However, sickness benefit can be paid for more than a year.

To be covered by AGS-KL the employee must have been employed for at least 90 days. Previous employment can also be included in the qualifying period if the employee was covered by AGS-KL, AGS, ITP or KTP in the previous employment provided that it is not more than two years before the start of the present employment. To be covered by AGS-KL the employee must moreover have had his or her SGI (annual income on which sickness benefit entitlement is based) established by the social insurance office and have been healthy at least 25 per cent for at least a week before the insurance comes into effect. Entitlement to AGS-KL terminates the month before the employee attains the age of 65 years.

There is also post-employment cover in AGS-KL that applies for 720 days after employment has terminated.

#### 4.4.3 Benefit in accordance with agreement in the event of illness for white-collar workers in the private sector

According to the group agreement between the Confederation of Swedish Enterprise and trade unions in different sectors, all employees covered by the collective agreement receive sick pay from sick day 15 till 90.<sup>36</sup> The benefit, which is paid by the employer, comes to an amount which, together with sickness benefit from the social insurance office, is equivalent to 90 per cent of the wage. From the 91<sup>st</sup> sick day white-collar workers with an annual wage above 7.5 price base amounts are entitled to an ITP disability pension during the period that sickness benefit is paid. Benefit from insurance is paid by Alecta. No benefit is paid for portions of wage under 7.5 price base amounts. A disability pension of 65 per cent is paid for wage portions between 7.5 price base amounts and 20 *income* base amounts (the income base amount is SEK 43,300 in 2005) and a disability pension of 32.5 per cent for wage portions between 20 income base amounts and 30 *price* base amounts.

**Table 4.3 Benefit per month in the event of illness: sick pay, sickness benefit and collective agreements between Confederation of Swedish Enterprise and PTK (amounts in SEK)**

| <i>Monthly wage</i>                        | <i>15,000</i>  | <i>30,000</i>  | <i>50,000</i>  |
|--|--|--|--|
| Sick pay (the employer)                    | 0 day 1<br>12,000 day 2–14<br>1,500 day 15–90                    | 0 day 1<br>24,000 day 2–14<br>7,300 day 15–90                    | 0 day 1<br>40,000 day 2–14<br>25,300 day 15–90                   |
| ITP  | 0 day 91–  | 3,494 day 91–  | 16,494 day 91–   |
| Sickness benefit (social insurance office) | 0 day 1–14<br>12,000 day 15–                                     | 0 day 1–14<br>19,700 day 15–                                     | 0 day 1–14<br>19,700 day 15–                                     |
| Total                                      | 0 day 1<br>12,000 day 2–14<br>13,500 day 15–90<br>12,000 day 91– | 0 day 1<br>24,000 day 2–14<br>27,000 day 15–90<br>23,194 day 91– | 0 day 1<br>40,000 day 2–14<br>45,000 day 15–90<br>36,194 day 91– |

*Note:* Before an employee has been on sick leave for a year, the social insurance office shall have investigated whether the prerequisites are met to replace sickness benefit by disability pension. However, sickness benefit can be paid for more than a year.

<sup>36</sup> If the employee has been white-collar employee for less than a year, he or she is entitled to sick pay for at most 45 days. Entitlement to sick pay accompanies employment and terminates when the employee leaves his or her post.

There is also post-employment cover in the ITP-plan. If a former employee falls ill within three months of the termination of employment, he or she is entitled to ITP's disability pension provided that he or she does not have new employment that provides insurance cover equivalent to ITP.

#### **4.4.4 Benefit in accordance with agreement in the event of illness for blue-collar workers in the private sector**

The Confederation of Swedish Enterprise and LO as well as KFO and LO have concluded agreements on group health insurance, AGS, which provide employees within both collective agreement areas with entitlement to benefit in addition to sickness benefit from the social insurance office. For an employee to be covered by AGS, it is required that he or she has been employed for 90 days (qualifying period). Periods of time at another employer with an insurance agreement on AGS, AGS-KL, ITP or KTP may be included in the qualifying period provided that the person has had the employment at the latest during the two years immediately preceding the present employment. Besides completing the qualifying period, the employee must have an SGI established by the social insurance office and have been healthy for at least 25 per cent for at least a week before insurance comes into effect. Entitlement to AGS terminates a month before the employee attains the age of 65.

AGS provides benefit between the 15<sup>th</sup> and the 360<sup>th</sup> sick day. The benefit is equivalent to 10 per cent of annual wage components below 7.5 price base amounts. No benefit is paid for annual wage components above 7.5 price base amounts.

There is also post-employment cover in AGS. The insurance cover continues to be valid for 720 days after employment has terminated.

**Table 4.4 Benefit per month in the event of illness: sick pay, sickness benefit and benefit from AGS (amounts in SEK)**

| <i>Monthly wage</i>                            | <i>15,000</i>  | <i>30,000</i>  | <i>50,000</i>  |
|--|--|--|--|
| Sick pay (the employer)                        | 0 day 1<br>12,000 day 2–14   | 0 day 1<br>24,000 day 2–14   | 0 day 1<br>40,000 day 2–14   |
| AGS  | 1,500 day 15–360   | 2,463 day 91–360   | 2,463 day 91–360   |
| Sickness benefit (the social insurance office) | 0 day 1–14<br>12,000 day 15–                                       | 0 day 1–14<br>19,700 day 15–                                       | 0 day 1–14<br>19,700 day 15–                                       |
| Total  | 0 day 1<br>12,000 day 2–14<br>13,500 day 15–360<br>12,000 day 361– | 0 day 1<br>24,000 day 2–14<br>22,163 day 15–360<br>19,700 day 361– | 0 day 1<br>40,000 day 2–14<br>22,163 day 15–360<br>19,700 day 361– |

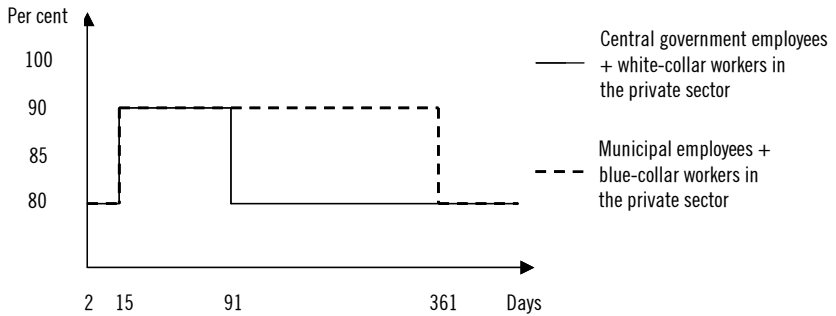
*Note:* Before an employee has been on sick leave for a year, the social insurance office shall have investigated whether the prerequisites are met to replace sickness benefit by disability pension. However, sickness benefit can be paid for more than a year.

#### 4.5 Comparison of benefit between collective agreement areas

The compensation level for sick leave varies greatly between collective agreement areas. The differences are least for those with a monthly wage below the ceiling in the social insurance system. The higher the monthly wage is, the greater the difference in the compensation level between the agreement areas.

Figure 4.1 shows the compensation level for employees with a monthly wage of SEK 15,000. Most generous in this wage class is benefit from the municipal agreement (AGS-KL) and the agreement for blue-collar workers in the private sector (AGS) where benefit is 90 per cent of the wage from the 15<sup>th</sup> to the 360<sup>th</sup> sick day with sickness benefit. Benefit subsequently decreases to 80 per cent. The compensation level for central government employees (ALFA) and white-collar workers in the private sector with a wage of SEK 15,000 is 90 per cent between the 15<sup>th</sup> and 90<sup>th</sup> sick day with sickness benefit. The replacement rate subsequently decreases to 80 per cent.

**Figure 4.1 Compensation level in different collective agreement areas for employees with a monthly wage of SEK 15,000**

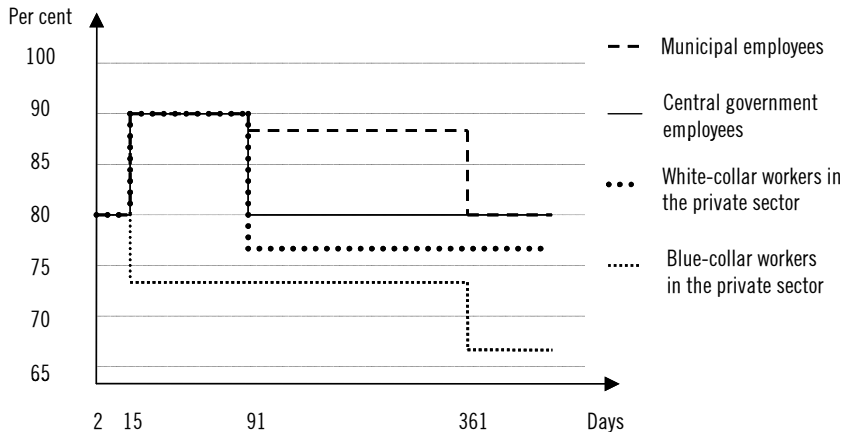


The municipal agreement is most generous for sick leave for employees with a wage over the ceiling in social insurance. In second place, central government employees have the highest compensation level. Blue-collar workers in the private sector have the lowest compensation level for sick leave, but few in this group have an income over the ceiling in the social insurance scheme.

Figure 4.2 shows the different levels of compensation that employees with a monthly wage of SEK 30,000 receive in the event of sick leave. The central government, municipal and the agreement for white-collar workers in the private sector provide, together with social insurance, a compensation level of 90 per cent between the 15<sup>th</sup> and the 90<sup>th</sup> sick day. For the same period, blue-collar workers in the private sector (AGS) within same the wage class have a compensation level of 74 per cent. Few or none within the area of agreement have a wage that amounts to SEK 30,000. The municipal agreement is most generous between the 91<sup>st</sup> and the 360<sup>th</sup> sick day providing a benefit of 88 per cent. After sick day 360, the compensation level is 80 per cent as long as sickness benefit is paid from the social insurance office. Central government employees have a compensation level of 80 per cent from the 91<sup>st</sup> sick day until sickness benefit ceases to be paid. The corresponding compensation level from the 91<sup>st</sup> sick day with sickness benefit for white-collar workers in the private sector is 77 per cent. Blue-collar workers in the private sector have a compensation level of 74 per cent between the 91<sup>st</sup> and the 360<sup>th</sup> sick day with sickness benefit. As from the 361<sup>st</sup> sick day, the compensation level decreases to

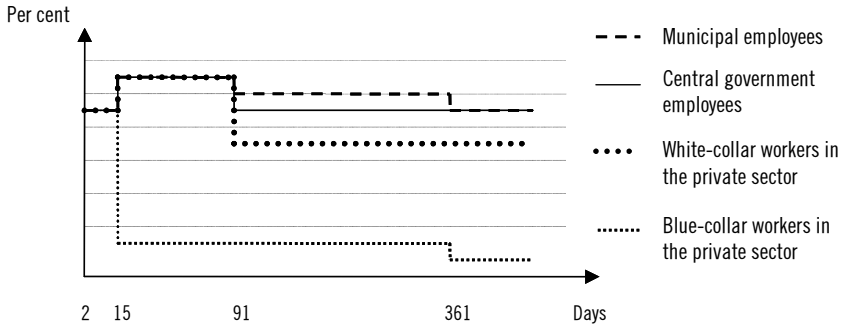
66 per cent for those within the AGS agreement area. As mentioned, few or none within the area have a wage that amounts to SEK 30,000.

**Figure 4.2 Compensation level in different collective agreement areas for employees with a monthly wage of SEK 30,000**



The compensation level in the event of sick leave for employees with a monthly wage of SEK 50,000 is shown in Figure 4.3. The compensation level for central government and municipal employees and white-collar workers in the private sector is 90 per cent from sick day 14 to 90. For the same period, blue-collar workers in the private sector within the wage class have a compensation level of 44 per cent. However, monthly wages of SEK 50,000 scarcely exist among those who belong to this group. Municipal employees have a compensation level of 85 per cent between the 91<sup>st</sup> and the 360<sup>th</sup> sick day. Subsequently, municipal employees within this wage class have a compensation level of 80 per cent as long as sickness benefit is paid. Central Government employees have a compensation level of 80 per cent and white-collar workers in the private sector receive compensation of up to 72 per cent of the wage from the 91<sup>st</sup> sick day as long as sickness benefit is paid. The blue-collar workers in the private sector have a compensation level of 44 per cent between sick day 91 and 360. Subsequently, their benefit is 39 per cent.

**Figure 4.3 Compensation level in different collective agreement areas for employees with a monthly wage of SEK 50,000**



Altogether, the municipal agreement AGS-KL provides most benefit both for employees with a wage below and above the ceiling in social insurance. The agreement for blue-collar workers in the private sector (AGS) provides together with the municipal agreement the highest compensation level for those with a wage below the social insurance ceiling.

#### **4.6 Research on sick leave and agreement-based benefits**

Research and investigation of benefit in the event of sick leave and the duration of the period of sick leave has shown that there is a positive correlation between the compensation level and the duration of the period of sick leave. See Broström et al (1998), Henrekson and Persson (2004), Johansson and Palme (2002) and Lidwall and Skogman Thoursie (2000).

In section 2.7, we showed why it was important to take into consideration agreement-based benefits and agreement-based insurance and not only benefits from the public system in research on the effects of unemployment benefit on the occurrence and duration of unemployment. This also applies for research on sick leave. If we investigate the probability of a person on sick leave with a wage below the ceiling in the social insurance ceiling returning to work, it is important to know that employees do not all have the same compensation level after the 90th sick day (see Figure 4.1). Central government employees and white-collar



workers in the private sector have an 80-per cent compensation level from day 91 and on while municipal employees, blue-collar workers in the private sector have a compensation level of 90 per cent from the same sick day. Since earlier research shows that a higher compensation level has led to longer periods of illness, we can expect that the difference in the compensation level between employees in different sectors of the labour market can affect the duration of the sick leave periods differently. In section 4.5 we also showed that the differences in the compensation level between different sectors increased with wage. It is therefore also important to investigate those on sick leave with different wages separately. From the point of view of research, it is advantageous that there are differences in the compensation level between different areas. This makes it easier to investigate the importance of variations in the compensation level.

#### **4.7 The development of sick leave<sup>37</sup>**

##### **Short sick leave**

The first 14 days of sick leave are paid for by the employer in the form of sick pay. Periods of sick pay need not be reported by the employer to the social insurance office or another authority responsible for statistics. This has led to there not being any register-based statistics on short sick leave and its development since the Sick Pay Act came into effect. As a result, research in this area is not particularly extensive.

Statistics Sweden has sent out a questionnaire in connection with the short-period employment statistics that covers a sample of all employers. The National Social Insurance Agency (RFV) has in collaboration with Statistics Sweden therefore produced statistics on short sick leave in the private sector during 2001 (see RFV Statistikinformation, 2002:1). They have limited their study to apply to employers with at most 49 employees.<sup>38</sup> They have found that the very short sick leave – one to three days – is most common and accounts for over 55 per cent of the cases of illness in 2001. 75

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<sup>37</sup> See Swedenborg (2003) for a number of contributions to the discussion on the high level of sick leave.

<sup>38</sup> RFV and Statistics Sweden are currently developing a system for producing regular statistics on short sick leave (sick days with sick pay) within all sectors and sizes of enterprise.

per cent of the cases of illness end within five days. Only 9 per cent of the periods of illness are longer than 14 days and pass on to the social insurance office for continued payment of sickness benefit. The pattern is the same for women and men.

The RFV report also contains a comparison with the duration of cases of illness in 1991, when the employer did not pay statutory sick pay. The statistics for 2001 only cover private sector companies with at most 49 employees, while all employees regardless of the number of employees at the employer are included in the statistics for 1991. The results of the measurements for 2001 show considerable similarities as regards the distribution of the length of cases of illness with the statistics from 1991. According to the 1991 statistics, 58 per cent of the cases of illness were between one and three days, 80 per cent were at most five days and 9 per cent were longer than two weeks.

### **Sick leave lasting for longer than 14 days**

All sick leaves of over 14 days are to be reported to the social insurance office. The social insurance office (Försäkringskassan) will then make an assessment of whether sickness benefit is to be paid and will then pay sickness benefit. All payment of sickness benefit is registered at the social insurance office. Table 4.5 shows the development of the sickness rate between 1998 and 2004. The sickness rate is defined as the number of days paid with sickness benefit per registered insured person aged between 16 and 64 excluding insured persons with a full disability pension. The sickness rate is reported for a twelve-month period. All days are counted as one day regardless of the extent, i.e. full, half etc. Days with sick pay from the employer are not included in the sick rate.

**Table 4.5 The sick rate by age**

| <i>Age</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> |
|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 16–19      | 0.2         | 0.2         | 0.3         | 0.4         | 0.5         | 0.4         | 0.3         |
| 20–24      | 2.5         | 3.1         | 3.8         | 5.0         | 5.7         | 5.7         | 5.0         |
| 25–29      | 5.7         | 6.7         | 8.0         | 9.6         | 10.9        | 11.0        | 9.8         |
| 30–34      | 8.4         | 10.2        | 12.3        | 14.7        | 16.2        | 16.0        | 14.4        |
| 35–39      | 10.4        | 12.8        | 15.6        | 18.7        | 20.5        | 20.3        | 17.9        |
| 40–44      | 12.1        | 14.7        | 18.0        | 21.4        | 23.8        | 23.4        | 21.0        |
| 45–49      | 14.6        | 17.8        | 21.6        | 24.9        | 26.7        | 26.2        | 23.3        |
| 50–54      | 18.1        | 22.0        | 26.0        | 29.5        | 31.0        | 30.0        | 26.5        |
| 55–59      | 23.0        | 28.0        | 32.3        | 35.7        | 36.7        | 34.6        | 30.1        |
| 60–64      | 18.9        | 24.7        | 29.4        | 34.2        | 35.7        | 34.6        | 30.0        |
| All        | 11.2        | 13.8        | 16.6        | 19.4        | 20.9        | 20.4        | 18.0        |

*Source:* RFV Statistics

According to Table 4.5, the insured persons were in 1998 on average on sick leave and received sickness benefit for over eleven days. Up to and including 2002, the average number of sickness benefit days per insured person increased when it reached a peak of almost 21 days. Since then, the number of sickness benefit days per insured person has decreased to 18 days in 2004.

The sick rate increased greatly for all age groups between 1998 and 2002 to then decrease again to 2004. However, the sick rate differs greatly between different age groups; older persons have a higher sick rate than younger persons.

**Table 4.6 Ongoing cases of illness exceeding four weeks between 1998 and 2003 (measured in March)**

| <i>Days</i> | <i>Cases of illness</i>        | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    |
|-------------|--------------------------------|---------|---------|---------|---------|---------|---------|
| 29–59       | Number                         | 21,322  | 24,779  | 27,739  | 29,129  | 29,427  | 28,833  |
|             | Proportion of cases of illness | 15%     | 15%     | 13%     | 12%     | 11%     | 10%     |
|             | Change since 1998              | -       | 16%     | 30%     | 37%     | 38%     | 35 %    |
| 60–179      | Number                         | 39,374  | 45,439  | 58,789  | 65,057  | 70,048  | 62,441  |
|             | Proportion of cases of illness | 29%     | 27%     | 28%     | 26%     | 25%     | 22%     |
|             | Change since 1998              | -       | 15%     | 49%     | 65%     | 78%     | 59%     |
| 180–364     | Number                         | 31,331  | 38,987  | 49,053  | 56,556  | 61,599  | 59,180  |
|             | Proportion of cases of illness | 23%     | 23%     | 23%     | 23%     | 22%     | 21%     |
|             | Change since 1998              | -       | 24%     | 57%     | 81%     | 97%     | 89%     |
| 1–2 years   | Number                         | 27,447  | 38,863  | 48,402  | 63,164  | 71,883  | 77,184  |
|             | Proportion of cases of illness | 20%     | 23%     | 23%     | 25%     | 26%     | 27%     |
|             | Change since 1998              | -       | 42%     | 76%     | 130%    | 162%    | 181%    |
| >2 years    | Number                         | 18,529  | 21,953  | 28,927  | 36,176  | 46,448  | 58,219  |
|             | Proportion of cases of illness | 13%     | 13%     | 14%     | 14%     | 17%     | 20%     |
|             | Change since 1998              | -       | 18%     | 56%     | 95%     | 151%    | 214%    |
| All         | Number                         | 138,003 | 170,021 | 212,910 | 250,082 | 279,405 | 285,857 |
|             | Change since 1998              | -       | 23%     | 54%     | 81%     | 102%    | 107%    |

Source: Statistisk Information Is-I 2003:3.

According to Table 4.6, the number of cases of illness with duration of more than four weeks has doubled between 1998 and 2003, from 138,000 to almost 286,000. In particular, long-term sick leave, defined here as cases of illness with duration of over a year, has increased. In 1998, 33 per cent of cases of illness that had already duration of more than four weeks were long-term sick leave. Long-term sick leave accounted for 47 per cent of cases of illness that had lasted for more than four weeks in 2003.

Accordingly, the number of cases of long-term sick leave increased by 194 per cent, i.e. they almost tripled, during the six-year period investigated. This can be compared with cases of illness with a duration of between 29 and 59 days, which increased by 35 per cent between 1998 and 2003.

### Sick leave by sector

Table 4.7 shows the proportion of sick leave and the proportion of the population in employment in different sectors in 2002. The individuals are aged between 20 and 64. The persons on sick leave in the comparison started a new period of sick leave of at least 15 days at the end of January 2002. The table shows that the persons on sick leave work in the municipal sector to a greater extent than the population as a whole, while the self-employed and private sector employees are underrepresented among persons on sick leave. This applies to both women and men.

**Table 4.7** Proportion on sick leave in 2002 and proportion of the population (20–64 years) in different sectors

| <i>Sector</i>  | <i>All</i>        |                   | <i>Women</i>      |                   | <i>Men</i>        |                   |
|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                | <i>Sick leave</i> | <i>Population</i> | <i>Sick leave</i> | <i>Population</i> | <i>Sick leave</i> | <i>Population</i> |
| Central Govt   | 11                | 9                 | 10                | 9                 | 11                | 10                |
| Municipality   | 30                | 23                | 40                | 36                | 13                | 10                |
| County Council | 8                 | 7                 | 11                | 11                | 2                 | 3                 |
| Private        | 42                | 49                | 31                | 35                | 59                | 61                |
| Self-employed  | 5                 | 9                 | 3                 | 5                 | 9                 | 12                |
| Other sector   | 5                 | 4                 | 5                 | 3                 | 5                 | 4                 |

*Source:* RFV Analyserar 2003:10.

Table 4.8 shows sick leave with duration of more than 60 days broken down by different sectors between 1999 and 2002. The distribution of sick leave is stable over time. According to the Swedish Labour Force Surveys (AKU), 6 per cent of the employees in 1999 were employed in the central government sector, 64 per cent in the private sector and 30 per cent in municipalities and county councils. The distribution of employees between sectors has according to AKU been stable between 1999 and 2002. Of those employed in 2002, 6 per cent were employees within the

central government sector, 65.5 per cent within the private sector and 28.5 per cent in municipalities and county councils. If we compare the distribution of employees between sectors according to AKU with the proportion who are on sick leave for at least 60 days, we find an overrepresentation of "longer than 60-days sick leave" in municipalities and county councils and an underrepresentation in the private sector.

**Table 4.8** Proportion on sick leave for more than 60 days by sectors 1999–2002

|                                   | 1999 | 2000 | 2001 | 2002 |
|-----------------------------------|------|------|------|------|
| Private                           | 45   | 48   | 47   | 46   |
| Municipality                      | 31   | 30   | 31   | 32   |
| County Council                    | 10   | 10   | 10   | 9    |
| Central Government                | 9    | 7    | 7    | 7    |
| Employed in public administration | 2    | 2    | 2    | 2    |
| Other employer                    | 3    | 3    | 3    | 4    |

*Source:* RFV Redovisar 2003:4.

## 4.8 Conclusions

The supplements through agreement-based benefits and agreement-based insurance in the event of illness consistently entail that the combined compensation is higher, in particular for those with income over the ceiling in the sickness benefit scheme. However, these schemes do not entail an extension of the benefit periods. There is no fixed final limit for the period of sickness benefit from the social insurance system although there is a recommendation that the social insurance office should consider disability pension instead of sickness benefit if the benefit period lasts longer than a year.

However, there are considerable differences in the compensation level between different agreement areas and even more with regard to the duration of the period during which supplementary benefit is paid. It is not self-evident that these differences or even the conditions of their own benefit schemes are known to those covered by them.

A special information problem concerns the combined level of sickness benefit and benefit in accordance with agreement

compared with the combined level of disability pension and benefit in accordance with agreement. This is a question that has been discussed where the basis for discussion has at times been insufficient. We will return to this question in the next chapter.

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# Chapter 5 Benefit for permanently reduced work capacity<sup>39</sup>

## 5.1 Disability pensions

Most countries grant pensions to those who have permanently reduced work capacity. These were often initially known as invalidity pensions, but the name has changed over time. In Sweden the name has changed on several occasions. We will here consistently call the benefit *disability pension*. In many countries such pension systems were introduced as a result of war and were often specially designed for those wounded in war. In Sweden they came into being through the establishment in 1913 of the national old age pension system (see Chapter 6). On the whole, the benefits and regulations complied with those that were applicable for the old age pension. The same applied when the supplementary (ATP) system was introduced in 1960, the only difference being that assumed income replaced actual income in the calculation of the pension for the years from the time of the granting of disability pension until the age when the old-age pension came into effect. The link between the disability pension system and the old age pension system remained until the introduction of the new old-age pension system. Since 2003 we have a new system of disability pension unrelated to the old-age pension system and also new names for the pension. We will as mentioned use the same term for the compensation in this period as for that in earlier periods – disability pension.

Disability pension has always been more common among older people than among younger people. This is partly because there is an influx into the disability pension system among all age groups but few leave the disability pension scheme before receiving the old age pension. The proportion of a cohort receiving a disability pension therefore increases year by year. But it is partly due to the fact that far more people take a disability pension when they are older than when they are younger. One explanation for this is that

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<sup>39</sup> The authors would like to especially thank Eva Aldvin Karlsson, PTK, Ingvar Backle, The Confederation of Swedish Enterprise, Sofia Bergström, Svenskt Näringsliv, Catharina Bäck, SKL, Palle Carlsson, LO, Alf Eckerhall, The Confederation of Swedish Enterprise, Harald Mårtensson, SACO, Ragnar Nylander, AFA, Hans Olsson, Social Insurance Commission, Hans Rödin, CF and Marie-Louise Strömberg, SACO for their views on this chapter.

on average health deteriorates with age and that various functional impairments occur more frequently among the elderly than among the young. However, it is also because the disability pension is often used as a way out of the labour market. In Sweden this was formalised in such a way that labour market factors were taken into account when granting a disability pension for older people between the years 1970 and 1997 and that labour market reasons alone sufficed for the granting of a disability pension to older people between 1972 and 1991. However, in reality labour market factors were already being taken into consideration when assessing applications for disability pensions before 1970 and have continued to do so after 1997. It is not unique to Sweden that the disability pension has been and still is an important way out of work. This also applies in many other countries. The Netherlands in particular had an extremely high disability pension frequency for a long time. In other countries other systems have had the same function. Post-employment wage in Denmark, unemployment pension in Finland and early old age pension in France are some examples of ways out of work before ordinary pension age. The fact that the disability pension has been used as a way out of work is a reason why this has been so much discussed in Sweden. Another reason is the large scale, especially in recent years.

In addition to benefit from the social insurance system, most of those who have worked or still work are covered by various supplementary agreement-based benefit schemes. In this as in many other areas there are also different types of supplementary member insurance schemes. They can be designed in such a way that those who belong to a trade union can sign an insurance agreement which gives them supplementary benefit in the event of a long-term reduction in work capacity.

We shall start in this chapter with an overview of the development of the benefits from the social insurance schemes in the area and give an account of the conditions that apply at present. We shall then present the agreement-based benefits in the four large agreement areas. We shall not, however, in this study examine the member insurance schemes in the area. In the following section we compare the total benefit (social insurance + agreement-based insurance or benefit) in the event of sickness with that related to disability pension and present some information on crossovers between the two systems. The chapter also gives an account of the

development of the number of people taking disability pensions and describes the research in the area.

## 5.2 Development of disability pensions<sup>40</sup>

Disability pensions have existed since 1913. They were introduced at the same time as and as an integral part of the old age pension system. The purpose behind the introduction of the disability pension in 1913 was to give basic financial protection to a person who, as a result of illness, disability or the like, experienced a significant lack of work capacity. The disability pension was means-tested. From 1948 the testing of the old age pension ceased for all, but the disability pension continued to be means tested.

The 1962 National Insurance Act (SFS 1962:381) introduced the principle of income-related benefit to determine the disability pension. The disability pension, which ceased to be means-tested, was calculated in the same way as the old age pension in the ATP system with one additional factor, namely that the disability pension was also based on assumed points for income for the years through to ordinary pension age. The assumed points could be calculated in two different ways. The one that was most favourable to the individual was used.

In 1970 a reform of the disability pension was carried out. This relaxed the rules for granting a disability pension to older employees. Those who had reached the age of 63 could take a disability pension for medical reasons combined with labour market reasons. They could not be forced to move or be trained for a new job if they did not want to do so. In practice, labour market factors had already been taken into consideration before this point, but now there were statutory provisions to this effect. In 1972 it was made possible for a person to receive a disability pension solely for labour market reasons: a person of 63 who was unemployed and whose period of unemployment benefit had expired was entitled to a disability pension. In 1974 the age for a disability pension solely for labour market reasons was lowered to 60. In 1976, in connection with the lowering of the general pension age, the age limit for a disability pension for combined medical and labour market reasons (the basis introduced in 1970) was also lowered to

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<sup>40</sup> The section is based on Wadensjö and Sjögren (2000) and also RFV Analyserar, 2004:2.

60. In 1977 the provisions were amended so that the disability pension could be granted irrespective of the reason for the reduction in capacity. In practice, this meant that illnesses caused by alcohol or drugs could give entitlement to a disability pension.

The number of people taking a disability pension gradually increased. It became a common way out of work prior to normal pension age. To reduce the costs of the disability pensions the opportunities for receiving a disability pension were restricted in several stages during the 1990s. From October 1991 the possibilities for receiving a disability pension based on labour market reasons alone were removed. New pension levels were introduced in 1993. Four grades of disability pension – quarter, half, three-quarters and full disability pension as opposed to the previous grading of half, two thirds and full – could be granted depending on how great the work capacity was deemed to be. It was no longer possible to be granted two-thirds benefit, but those who were already receiving this benefit were allowed to keep it. The size of the pension was linked to a base amount reduced by 2 per cent, and this led to lower pensions.

In 1995 the rules for disability pensions were sharpened further. The disability pension was no longer considered permanent but was to be re-examined after a specific time. The disability pension based on labour market reasons or medical reasons combined with labour market reasons was removed in 1997; only medical reasons would now be taken into consideration when granting a disability pension. The insured's work capacity would be assessed against all jobs normally available on the labour market and a person who had the capacity to manage any such job on a full-time basis was considered to have full work capacity.<sup>41</sup>

On 1 January 2003 a new scheme with regard to disability pension was introduced replacing the previous one. The changes in the system were a consequence of the reform of the old age pension system. The system with the national basic pension and ATP ceased. Different rules applied to those aged between 19 and 29 than for those aged between 30 and 65. Those who already had a disability pension during the transition to the new system had their benefit converted to the new scheme.

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<sup>41</sup> If there are special reasons, the age, conditions of residence, education/training, previous activity or similar circumstances of the insured may also be taken into consideration when deciding on disability pension.

The conversion to the new scheme was carried out in a way that involved as little change as possible to the financial situation of the person insured. Those who were entitled to ATP in the form of a disability pension at the end of 2002 received it converted to the new scheme. First a calculation was made of assumed income based on the average points used in assessing the insured's ATP with respect to the ATP points credited. To the assumed income was added an extra ATP point and the point was then multiplied by the 2003 price base amount. If the assumed years were fewer than 30, the assumed income was reduced by 1/30 for each missing year. The income-related disability pension in the new scheme comprised 64 per cent of the assumed income. The gross amount in the new scheme also needed to be adapted with the help of an adjustment amount so that the net level was kept constant. The adjustment amount was primarily a compensation for the removal on 1 January 2003 of the special basic allowance for pensioners, and the fact that the guarantee benefit is independent of civil status (national basic pension and pension supplement were dependent on civil status). The new benefit amounts therefore became higher in many cases, but were taxed as normal incomes and the net level was kept almost constant. For those without ATP the national basic pension and pension supplement were converted to the guaranteed level in the new system.

RFV (2004:2) has studied the effects of the changed calculation rules on people's incomes from disability pension. In total 499,146 people had their benefit converted at the turn of 2002/2003. The study shows that the majority received an increased net benefit between December 2002 and January 2003. For 93 per cent of the 216,000 people included in their analysis the increase in the net benefit was between SEK 1 and SEK 299 per month, i.e. the change was very small.

### 5.3 Disability pension in 2005

#### Disability pension for those aged 19 to 29

Persons aged between 19 and 29 with a work capacity reduced by at least a quarter as a result of sickness or some other reduction of physical or mental performance capacity either permanently or for a period of at least a year may be granted a disability pension. The pension is always temporary and is granted for a maximum of three years at a time. Depending on the level of work capacity, the full, three-quarters, half or a quarter of the pension may be granted. Disability pension can also be paid if the functional impairment leads the individual to require extra schooling as a result. In this instance the work capacity is not assessed.

Before disability pension can be granted (this is the responsibility of the social insurance board), all possibilities for a return to work must be tested and the applicant must co-operate with the rehabilitation measures suggested by Försäkringskassan. Throughout the time that the individual is granted disability pension, he/she is obliged to undergo rehabilitation.

Disability pension is paid partly as income-related disability pension and partly as guarantee benefit. The income-related disability pension is based on the assumed income. The assumed income is the average of the three highest gross annual incomes<sup>42</sup> with additions for debited general pension contributions<sup>43</sup> (updated in relation to the price base amount) over a time frame of 8 years. Income portions over 7.5 times the price base amount are not included in the assumed income. To receive income-related disability pension the insured person must have had pensionable income or pensionable amounts of disability pension for at least a year during the time frame.

There is also an alternative calculation rule for income-related disability pension whereby the assumed income may be calculated from the two highest gross incomes over a time frame of three years. The alternative rule is used if it means a higher benefit for the applicant. Full income-related disability pension is calculated as 64 per cent of the assumed income.

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<sup>42</sup> Gross annual income means pensionable income, PGI, or pensionable amounts, PGB, from disability pension.

<sup>43</sup> The general pension contribution is 7 per cent in 2005.

A person with a low disability pension or no income-related disability pension can receive guarantee benefit. To be entitled to guarantee benefit it is necessary to have at least a 3-year calculated insurance period (insurance period is calculated as years in Sweden from and including age 16).<sup>44</sup> The guarantee benefit is therefore residence-based. To receive full benefit it is necessary to have at least a 40-year insurance period, including any future insurance period. The future insurance period is from and including the year that the insurance claim occurred up to and including the year in which the person concerned reaches the age of 64. The future insurance period may only be included if a person has lived at least 4/5 of the possible insurance period since the age of 16 in Sweden. With fewer than 40 years the benefit falls by 1/40 for each year missed. The guaranteed level is also dependent on the age of the insured and is shown in Table 5.1. The guarantee benefit is reduced by the income-related disability pension.

**Table 5.1 Guarantee benefit with disability pension 2005**

| <i>Age</i> | <i>Guarantee level in price base amount</i> | <i>Guarantee level – monthly benefit (SEK)</i> |
|------------|---|--|
| 19–20      | 2.10 * price base amount                    | 6,895  |
| 21–22      | 2.15 * price base amount                    | 7,059  |
| 23–24      | 2.20 * price base amount                    | 7,223  |
| 25–26      | 2.25 * price base amount                    | 7,388  |
| 27–28      | 2.30 * price base amount                    | 7,552  |
| 29         | 2.35 * price base amount                    | 7,716  |

Both income-related disability pension and the guarantee level are co-ordinated with (reduced by) the annuity from the occupational injury insurance. Disability pension is a taxable income and income-related disability pension is pensionable.

A person who has had disability pension for a year may apply for dormant disability pension in order to try to work. For up to three months (the trial period) the person concerned may work and also retain the disability pension. The disability pension can be dormant during the remaining period for which the disability pension has

<sup>44</sup> Special rules apply for refugees and people in need of protection and here the time they have lived in their former homelands may be calculated as the actual insurance period in Sweden.

been granted without the entitlement to disability pension being affected.

### **Disability pension for those aged 30 to 65**

A person between the ages of 30 and the old age retirement age of 65 with permanent reduction of work capacity of at least a quarter may receive disability pension.<sup>45</sup> If it is estimated that work capacity is impaired for a limited period of at least one year, temporary benefit may be granted, which is usually in periods of one or two years. The size of the benefit is independent of whether the disability pension is temporary or not. Depending on the degree of reduction in work capacity, full, three-quarters, half or a quarter benefit may be granted.

Before disability pension is granted, all possibilities for a return to work should be investigated. In order to be entitled to disability pension, the applicant is obliged to follow the rehabilitation measures proposed by Försäkringskassan. The disability pension is decided by the social insurance council. Those receiving disability pension have their work capacity reassessed roughly every third year.

Disability pension is paid partly as income-related disability pension, partly as guarantee benefit. The size of the income-related disability pension is based on the assumed income. The assumed income is the average income of the three highest gross annual incomes<sup>46</sup> (calculated with the help of the price base amount) with additions for debited general pension contributions over a time frame which is depending on the age of the insured (see Table 5.2). Gross incomes which exceed 7.5 times the price base amount are not included in the assumed income. To receive income-related disability pension, the insured must have had pensionable income or pensionable amounts of disability pension for at least one year during the time frame (Table 5.2). Full income-related disability pension is calculated as 64 per cent of the assumed income.

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<sup>45</sup> If there are special grounds, it is also possible when making decisions on disability pension to take into account the age, residence conditions, education/training, previous activity or the like of the insured.

<sup>46</sup> Gross annual income means pensionable income, PGI or pensionable amounts, PGB, from disability pension.



**Table 5.2 Time frame for income-based disability pension**

| <i>Age when claim occurs</i> | <i>Time frame (years)</i> |
|------------------------------|---------------------------|
| 30–46                        | 8                         |
| 47–49                        | 7                         |
| 50–52                        | 6                         |
| 53 or older                  | 5                         |

Those who receive a low benefit or no income-related benefit may receive guarantee benefit instead. To be entitled to guarantee benefit it is necessary to have at least a 3-year calculated insurance period (the insurance period is calculated as years in Sweden from and including age 16).<sup>47</sup> This means that the guarantee benefit is residence-based. To receive full benefit it is necessary to have at least a 40-year insurance period including any future insurance period. The future insurance period is from and including the year in which the insurance claim occurred until the year in which the person concerned reaches the age of 64. The future insurance period may only be included if a person has lived at least 4/5 of the possible insurance period since the age of 16 in Sweden. Where the figure is below 40 years, the benefit falls by 1/40 for each year missed. The guarantee level is 2.40 times the price base amount. This is equivalent to a monthly benefit of SEK 7,880 in 2005.

Disability pension is taxable and income-related disability pension is pensionable. A person who has had disability pension or limited disability pension for a year and who wishes to try to work may apply for dormant disability pension for a maximum of two years. For up to three months (the trial period) the disability pension may be retained while the person concerned receives income from work.

If a person has both disability pension and occupational injury annuity, the benefits are co-ordinated.

<sup>47</sup> Special rules apply for refugees and people in need of protection and here the time they have lived in their former homelands may be calculated as the actual insurance period in Sweden.

## 5.4 Supplements to the benefits from the social insurance system<sup>48</sup>

For a long time, there have been supplements to the benefits from the social insurance system for those who have taken a disability pension and who have had a job. In 1972 blue-collar workers in the private sector as the last major group also had such cover through AGS, a system which, as shown in the previous chapter, also provides compensation in the event of illness as a complement to sickness benefit. In other agreement areas compensation already existed, usually linked to the old age pension system. We shall give an account here of the four major agreement systems, compare them to one another and also compare the total benefit with disability pensions and sick leave in other agreement areas. As we mentioned in the introduction to this chapter, we are not looking at the supplements that might exist through different types of member insurance schemes.

### 5.4.1 Agreement-based benefit for disability according to the central government agreement

According to the pension agreement PA 03, employees who are covered by the agreement are entitled to a sickness pension if they have been granted a full non-temporary disability pension. An employee whose work capacity is impaired and who has been granted a temporary or a partial disability pension is entitled to a temporary sickness pension.

The sickness pension and the temporary sickness pension consist of a specific percentage of the pension basis (made up of fixed salary, other pay-related cash benefits excluding overtime pay and benefits in kind, see Chapter 6.4.3). For a pension basis lower than 7.5 price base amounts the sickness pension is 21 per cent of the pension basis, for parts of the pension basis between 7.5 and 20 price base amounts the sickness pension is 81 per cent, and for parts at the pension basis between 20 and 30 price base amounts the sickness pension is 40.5 per cent.

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<sup>48</sup> See Edebalk and Wadensjö (1989).

**Table 5.3 Benefit in the event of long-term reduction of work capacity from disability pension and PA 03 where the claim occurred in 2005 (amounts in SEK)**

| <i>Assumed income/Pension basis</i> | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|-------------------------------------|---------------|---------------|---------------|
| Disability pension                  | 9,600         | 15,760        | 15,760        |
| PA 03 sickness pension              | 3,150         | 9,525         | 25,725        |
| Total                               | 12,750        | 25,285        | 41,485        |

*Note:* A calculation model for disability pension can be found in RFV Vägledning 2004:9 page 119 pp. The pension basis/12 (i.e. per month) is assumed to be as great as the assumed income.

#### 5.4.2 Agreement-based benefit in the event of disability pension for municipal and county council employees according to AGS-KL

When an employee who is covered by the municipal insurance agreement AGS-KL receives disability pension, an extra benefit is paid based on the annual income on which sickness benefit entitlement is based (SGI) at the time the illness started.

Table 5.4 shows examples of how the benefit amount can vary with SGI (for a complete list, see AFA's insurance terms and conditions for AGS-KL). For those who have an income higher than 7.5 price base amounts a monthly benefit is also paid consisting of 65 per cent for wage parts between 7.5 and 20 price base amounts and 32.5 per cent for wage parts between 20 and 30 price base amounts.

**Table 5.4 Monthly benefit from AGS-KL in 2005 (amounts in SEK)**

| <i>SGI at start of illness</i> | <i>Monthly benefit from AGS-KL</i> | <i>SGI at start of illness</i> | <i>Monthly benefit from AGS-KL</i> |
|--------------------------------|------------------------------------|--------------------------------|------------------------------------|
| -71,000                        | 75                                 | 180,000                        | 2,449                              |
| 80,000                         | 757                                | 200,000                        | 2,646                              |
| 100,000                        | 1,159                              | 220,000                        | 2,885                              |
| 120,000                        | 1,443                              | 240,000                        | 3,000                              |
| 140,000                        | 1,788                              | 260,000                        | 3,250                              |
| 160,000                        | 2,165                              | 276,750–                       | 3,459                              |

**Table 5.5 Benefit in the event of disability from disability pension and AGS-KL where the case occurred in 2005 (amounts in SEK)**

| <i>Assumed income/<br/>SGI</i> | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|--------------------------------|---------------|---------------|---------------|
| Disability pension             | 9,600         | 15,760        | 15,760        |
| AGS-KL                         | 2,449         | 6,950         | 19,950        |
| Total                          | 12,049        | 22,710        | 35,710        |

*Note:* A calculation model for disability pension can be found in RFV Vägledning 2004:9 page 119 pp. SGI/12 (i.e. per month) is assumed to be as great as the assumed income.

### **5.4.3 Agreement-based benefit in the event of disability pension for private sector white-collar workers according to the ITP Plan**

White-collar workers who are covered by the ITP Plan are entitled to a sickness pension when disability pension is paid out. For wage parts below 7.5 price base amounts the benefit from ITP's sickness pension is 15 per cent, for wage parts between 7.5 price base amounts and 20 income base amounts the sickness pension is 65 per cent, and for wage parts between 20 and 30 income base amounts the benefit is 32.5 per cent.

**Table 5.6 Benefit in the event of permanent reduction of work capacity from disability pension and ITP where the claim occurred in 2005 (amounts in SEK)**

| <i>Assumed income/monthly pay</i> | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|-----------------------------------|---------------|---------------|---------------|
| Disability pension                | 9,600         | 15,760        | 15,760        |
| ITP sickness pension              | 2,250         | 7,188         | 20,188        |
| Total                             | 11,850        | 22,948        | 35,948        |

*Note:* A calculation model for disability pension can be found in RFV Vägledning 2004:9 page 119 pp. The monthly wage is assumed to be as great as the assumed income.

#### 5.4.4 Agreement-based benefit in the event of disability pension for blue-collar workers in the private sector according to AGS

When disability pension is paid, the benefit from AGS for blue-collar workers in the private sector is calculated based on the size of the income on which the SGI is based at the time the illness started. The monthly benefit can consist of a quarter, half, three-quarters or the full amount depending on the impairment in work capacity. The monthly benefit varies between SEK 75 and 3,459. Table 5.7 shows examples of benefit amounts (for the complete table see AFA's insurance terms and conditions for AGS).

**Table 5.7 Monthly benefit from AGS in 2005 (amounts in SEK)**

| <i>Sgl at time of illness</i> | <i>Monthly benefit from AGS</i> | <i>Sgl at time of illness</i> | <i>Monthly benefit from AGS</i> |
|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| -71,000                       | 75                              | 180,000                       | 2,449                           |
| 80,000                        | 757                             | 200,000                       | 2,646                           |
| 100,000                       | 1,159                           | 220,000                       | 2,885                           |
| 120,000                       | 1,443                           | 240,000                       | 3,000                           |
| 140,000                       | 1,788                           | 260,000                       | 3,250                           |
| 160,000                       | 2,165                           | 276,750–                      | 3,459                           |

**Table 5.8 Benefit in the event of permanent reduction of work capacity from disability pension and AGS where the case occurred in 2005 (amounts in SEK)**

| <i>Assumed income/<br/>SGI</i> | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|--------------------------------|---------------|---------------|---------------|
| Disability pension             | 9,600         | 15,760        | 15,760        |
| AGS                            | 2,449         | 3,459         | 3,459         |
| Total                          | 12,049        | 19,219        | 19,219        |

*Note:* A calculation model for disability pension can be found in RFV Vägledning 2004:9 page 119 pp. SGI/12 (i.e. per month) is assumed to be as great as the assumed income.

## 5.5 A comparison of the total benefit with sickness benefit and with disability compensation

When an employee receives sickness benefit from the social insurance, the level of benefit is 80 per cent of wage portions below the ceiling. Before a person has been on sick-leave for a year, Försäkringskassan should investigate whether sickness benefit should be replaced by disability pension. When disability pension is paid out, the level of benefit is 64 per cent of wage portions below the ceiling in the social insurance, which gives a far lower benefit from the social insurance than if the employee receives sickness benefit. But the benefit from the social insurance is, as described in the section above, not the only benefit the individual receives when he/she is granted disability pension provided that the individual has been employed at a workplace that is covered by a collective agreement. The total benefit depends on the sector of the labour market in which the employee has worked and the wage/salary he/she has had prior to the commencement of the sickness period.

Table 5.9 compares the overall benefit with sick leave and with disability pension for employees within different sectors and at different pay levels. In our comparisons we have used the pay levels of SEK 15,000, 30,000 and 50,000 per month. We are well aware that few or none within certain agreement areas have monthly incomes amounting to SEK 30,000 or 50,000, but we have recorded the values for all three levels for the four agreement areas in order to make the design of the systems clearer. We find that employees within all sectors, apart from white-collar workers in the private sector, who have a monthly wage of SEK 15,000, receive a total benefit (social insurance together with agreement-based insurance or agreement-based benefit) that is greater if they are granted disability pension from Försäkringskassan after one year's sick leave than if they continue to receive sickness benefit.

For wage levels above the sickness insurance ceiling government employees receive a higher level of benefit for disability pension if granted than for continued sickness benefit payment after one year's sick leave. Municipal employees lose most in the transition from sickness benefit to disability pension.

When comparing the compensation in the two systems (sickness, disability) one should be aware of that they are adjusted in a different way over time. The disability pension is price indexed from the time it is granted. The sickness benefit on the other hand

is set as a share of wage. If the wage of the individual on sick-leave increases, the sickness benefit increases. Note that it is the individual wage increase and not the general wage increase in the economy or the firm that matters. If the wage increases more than the prices it makes it relatively more favourable to continue on sickness benefits.

**Table 5.9 Total benefit after 360 days with sickness benefit and disability pension within different sectors (amounts in SEK)**

| Agreement area                       | Previous monthly pay                       |  |  |  |  |  |
|--------------------------------------|--|--|--|--|--|--|
|                                      | SEK 15,000 SEK                             |  | SEK 30,000                                 |  | SEK 50,000                                 |  |
|                                      | Sickness benefit + agreement-based benefit | Disability pension + agreement-based benefit | Sickness benefit + agreement-based benefit | Disability pension + agreement-based benefit | Sickness benefit + agreement-based benefit | Disability pension + agreement-based benefit |
| Central government                   | 12,000                                     | 12,750                                       | 24,000                                     | 25,285                                       | 40,000                                     | 41,485                                       |
| Municipality/county council          | 12,000                                     | 12,049                                       | 24,000                                     | 22,710                                       | 40,000                                     | 35,710                                       |
| Private sector: white-collar workers | 12,000                                     | 11,850                                       | 23,194                                     | 22,948                                       | 36,194                                     | 35,948                                       |
| Private sector: blue-collar workers  | 12,000                                     | 12,049                                       | 19,700                                     | 19,219                                       | 19,700                                     | 19,219                                       |

*Note:* The benefit for sick leave is that which is paid out after the 361st sick day when Försäkringskassan is obliged to investigate whether disability pension should be given instead of sickness benefit once the illness has lasted for one year (see Chapter 4). Disability pension is calculated on the assumption that the previous monthly pay is as great as the assumed income.

### Transition between sick leave and disability pension

As mentioned above, Försäkringskassan must have investigated no later than one year after the commencement of the sick leave whether sickness benefit should be replaced by disability pension. During spring 2002, the National Social Insurance Board (RFV) carried out a survey on Health, Work Conditions, Life Situation and Sick Leave (RFV-HALS). The survey was sent to a selection of individuals who had started a new period of sick leave during the last two weeks of January 2002 and were on sick leave for at least 15 days. The purpose of the study was to give a picture of what people on sick leave thought about their health, the reasons for sick leave, the possibility of returning to work and how their own

life situation has affected the sick leave. An initial report (RFV Analyserar 2002:16) confirms among other things that 25 per cent of those on sick leave believe they will never be able to manage their normal working hours again and that 19 per cent would like a disability pension (9 per cent full-time and 10 per cent part-time). The study also shows that the men are less optimistic than the women. Of the men, 29 per cent believe that they will never be able to work their normal hours again as opposed to 23 per cent of the women. Moreover, 16 per cent of the women and 25 per cent of the men want to have a disability pension.

Some research on the transition from sickness benefit to disability pension is available. Andrén (2001) has used data from the National Social Insurance Board concerning people on long-term sick leave (defined as those who have been on sick leave for at least 60 days) and charted how great a proportion of them went from sick leave to a disability pension between 1986 and 1989. She finds that 16 per cent of those who had been on sick leave for at least 60 days were granted a partial or full disability pension.

Palme and Svensson (2004) study different routes out of work during the period 1992–1999. They find that there are differences in how employees in different sectors are distributed in terms of their exit routes. The ways out of work that are examined are the old age pension, occupational pension, disability pension, survivor's pension, widow's pension, private pension, sick leave, unemployment benefit and part-time pension. The vast majority leave the workforce through the old age pension (34 per cent of the men and 27 per cent of the women). After this most depart through sick leave. 21 per cent of the men and 27 of the women take this route out of work. Among both men and women barely 7 per cent leave the workforce through the disability pension according to the study carried out by Palme and Svensson. Central-government employed women and men and self-employed males leave more often through the disability pension than employees in other sectors (see Table 5.10). Municipal and county council male employees and privately-employed female white-collar workers are the least likely to leave the workforce through a disability pension.



**Table 5.10 Proportion of the workforce leaving through a disability pension (per cent)**

|                                     | <i>Men</i> | <i>Women</i> |
|-------------------------------------|------------|--------------|
| Central government sector           | 8.87       | 10.76        |
| Municipal and county council        | 5.71       | 6.37         |
| Private sector white-collar workers | 4.36       | 5.32         |
| Private sector blue-collar workers  | 7.06       | 5.96         |
| Self-employed                       | 8.96       | 5.15         |
| All sectors                         | 6.55       | 6.59         |

*Source:* Palme and Svensson (2004).

Palme and Svensson have also studied how the transition between sickness benefit and other sources of income looks for those who leave the workforce. They find that of those who leave the workforce with sickness benefit as their primary source of finance 61 per cent are granted a disability pension before the time of the old age pension. On average it took two years before the sickness benefit was converted to a disability pension during the period 1992–1999.

Hallberg (2003) uses the LINDA database to study what persons between the ages of 55 and 64 with sickness benefit as their major source of income in 1998 had as their main source of income a year later (1999). The majority of men and women in the 55–59 age bracket with sickness benefit as their main source of income in 1998 had the same main income source in 1999 (see Table 5.11). Of the men and women aged 60–64 with sickness benefit as their main source of income in 1998 most received their main income through a disability pension the following year.

**Table 5.11 Proportion with sickness benefit as main source of income in 1998 who returned to work, continued on sickness benefit, or were granted a disability pension in 1999 (per cent)**

| <i>Main income in 1999</i> | <i>Men</i>   |              | <i>Women</i> |              |
|----------------------------|--------------|--------------|--------------|--------------|
|                            | <i>55–59</i> | <i>60–64</i> | <i>55–59</i> | <i>60–64</i> |
| Continued sickness benefit | 49.1         | 29.8         | 51.3         | 36.5         |
| Returned to work           | 11.2         | 2.9          | 10.7         | 8.7          |
| Disability pension         | 26.6         | 41.8         | 24.4         | 38.1         |

*Source:* Hallberg (2003).

## 5.6 Volume of disability pensions granted in recent years

The development of the volume of disability pensions paid out is shown in Table 5.12 and Table 5.13. In December 1999 a total of 424,950 people received a disability pension. In 2004 the number of people who received disability pension was 539,642, which is an increase of 27 per cent over the five-year period studied.

Most of the recipients of disability pensions receive the full allowance. During the period 1999–2004 this group comprised just under three-quarters of all those with compensation for continued reduced capacity. The possibility of being granted two-thirds benefit was removed, but those who had this benefit already were allowed to keep it. Between 1999 and 2004 the number of people receiving three-quarters benefit rose by 61 per cent from 8,814 to 14,221. Those receiving half benefit increased by 21 per cent from 78,325 to 94,755 and those receiving a quarter benefit increased by 95 per cent from 15,728 to 30,672. Since no further benefit was granted at the two-thirds level (which was discontinued in 1993), the number receiving this degree of benefit fell over our study period by 57 per cent from 1,614 to 688 (many people receiving two-thirds disability pensions reached ordinary pension age).

**Table 5.12** Number of people with a disability pension. Per cent of women within parentheses

|                        | 1999            | 2000            | 2001            | 2002            | 2003            | 2004            |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1/1                    | 320,469<br>(54) | 332,032<br>(54) | 347,392<br>(55) | 371,536<br>(55) | 382,135<br>(56) | 399,306<br>(56) |
| 3/4                    | 8,814<br>(54)   | 9,144<br>(55)   | 9,891<br>(56)   | 11,103<br>(56)  | 12,274<br>(57)  | 14,221<br>(59)  |
| 2/3                    | 1,614<br>(58)   | 1,331<br>(56)   | 1,149<br>(57)   | 980<br>(56)     | 829<br>(55)     | 688<br>(55)     |
| 1/2                    | 78,325<br>(63)  | 78,240<br>(64)  | 79,375<br>(64)  | 82,850<br>(64)  | 86,717<br>(64)  | 94,755<br>(65)  |
| 1/4                    | 15,728<br>(73)  | 17,196<br>(74)  | 19,015<br>(74)  | 22,083<br>(74)  | 25,334<br>(75)  | 30,672<br>(75)  |
| All pension recipients | 424,950<br>(56) | 437,943<br>(57) | 456,822<br>(57) | 488,552<br>(58) | 507,289<br>(58) | 539,642<br>(59) |

Source: RFV statistics, own calculations.

The proportion of women receiving disability pensions is shown in Table 5.12. This proportion increased from 56 to 59 per cent during the period. Of people receiving half or one quarter benefit, women make up the vast majority. Of people receiving half benefit, 63–65 per cent are women and of people receiving a quarter benefit, 73–75 per cent are women.

**Table 5.13 Percentage change in number of people with a disability pension**

|     | 1999–2000 | 2000–2001 | 2001–2002 | 2002–2003 | 2003–2004 | 1999–2004 |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 1/1 | + 3.6     | + 4.6     | + 7.0     | + 2.9     | + 4.5     | + 24.6    |
| 3/4 | + 3.7     | + 8.2     | + 12.3    | + 10.5    | + 15.9    | + 61.3    |
| 2/3 | - 17.5    | - 13.7    | - 14.7    | - 15.4    | - 17.0    | - 57.4    |
| 1/2 | - 0.1     | + 1.5     | + 4.4     | + 4.7     | + 9.3     | + 21.0    |
| 1/4 | + 9.3     | + 10.6    | + 16.1    | + 14.7    | + 21.1    | + 95.0    |
| All | + 3.1     | + 4.3     | + 6.9     | + 3.8     | + 6.4     | + 27.0    |

Source: RFV statistics, own calculations.

Payments for disability pensions increased between 1999 and 2004. Table 5.14 shows Försäkringskassan's costs between 1999 and 2004 in 2003 prices. During the period payments increased by nearly 27 per cent from SEK 43.1 billion in 1999 to just over SEK 54.6 billion in 2004 (both amounts in 2003 prices). The proportion of payments going to women has gradually increased from 51 to 55 per cent.

**Table 5.14 Payments for disability pension expressed in annual amounts per SEK 1000. Per cent of benefit paid to women in parentheses**

|                        | 1999               | 2000               | 2001               | 2002               | 2003               | 2004               |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Benefit in 2003 prices | 43,050,560<br>(51) | 44,304,565<br>(52) | 45,378,166<br>(52) | 49,160,343<br>(53) | 50,723,735<br>(54) | 54,585,276<br>(55) |
|                        | 1999–2000          | 2000–2001          | 2001–2002          | 2002–2003          | 2003–2004          | 1999–2004          |
| Change in benefit      | +2.9               | +2.4               | +8.3               | +3.2               | +7.6               | +26.8              |

Source: RFV statistics, own calculations. Note: The costs are calculated with the help of the Consumer Price Index at 2003 prices.

## Demand for disability pension

A report from RFV (RFV Analyserar 2004:7) analyses with the help of RFV-HALS the numbers of those on sick leave who wish to receive a disability pension. Table 5.15 shows the proportion of those questioned in each sector who wanted to receive a disability pension. It was lowest within the county council and thereafter in the municipalities. The largest proportion wishing to have a disability pension was found among the self-employed, followed by employees within the central government sector.

**Table 5.15 Proportion wishing to receive a disability pension by sector (per cent)**

| <i>Sector</i>      | <i>All</i> | <i>Women</i> | <i>Men</i> |
|--------------------|------------|--------------|------------|
| Central government | 21         | 19           | 25         |
| Municipality       | 16         | 14           | 24         |
| County council     | 11         | 11           | 12         |
| Private            | 18         | 13           | 23         |
| Self-employed      | 24         | 23           | 25         |
| Other              | 20         | 18           | 22         |

*Source:* RFV Analyserar 2004:7.

## 5.7 Research into benefit levels and the number of disability pensions granted

Swedish research on the probability of being granted a disability pension shows the importance of economic incentives. The higher the level of benefit received in connection with continued functional impairment, the greater the likelihood of a person being granted a disability pension (see for example Hedström, 1987, Skogman Thoursie, 1999, and Wadensjö, 1985)<sup>49</sup>. One explanation for this might be that economic incentives influence the likelihood of an individual applying for a disability pension. If the information on the individual's current health status is incomplete, a person may be granted a disability pension even if fit to work.

<sup>49</sup> A study by Andrén (2001) however gives opposite results. She has studied the likelihood of those on long-term sick leave (more than 60 days) being granted a disability pension. Andrén finds that the higher the income of the individual concerned, the greater the likelihood that he/she will return to work, but that the more an individual loses by receiving a disability pension, the greater the likelihood that he/she will be granted a disability pension.

It is important in the research into economic incentives and the granting of disability pensions to take into account agreement-based insurance schemes and agreement-based benefits, just as in the research into unemployment and sick leave (see sections 2.7 and 4.6). If the researcher only takes into account the disability pension from the social insurance when examining how the level of benefit affects the number of claims for compensation granted, the results may become distorted. The disability pension only provides a level of compensation of 64 per cent to those with an income below the social insurance ceiling and an even lower level of compensation to those with higher incomes. If these compensation levels alone are used to measure people's incomes in connection with disability pensions, then their actual incomes after receiving a pension are being grossly underestimated. We have shown above that the actual level of compensation is higher and within certain sectors and for certain income groups it is largely on the same level as the sickness benefit. Consideration needs to be given to the agreement-based benefits when studying the effects of economic incentives on the incidence of disability pensioning.

## 5.8 Conclusions

The disability pension system is of great importance both for those directly affected by it and for the economy. Many people receive benefit from this system and the numbers receiving such benefit have risen. The supplements from agreement-based benefits are important, particularly for those with incomes above the ceiling in the social insurance system, but the agreement-based benefits below the ceiling also provide substantial additional help. Compensation below the ceiling is given in all agreement areas. In three of the agreement areas benefit is also given above the ceiling. There are differences in the level of compensation given by the different systems. The total benefit is highest for central government employees.

An important question is how the total benefit for the disability pension compares with sick leave. This can influence the desire to receive benefit from one system as opposed to another.<sup>50</sup> Our

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<sup>50</sup> This is not a new question. It was being debated between the wars. In those days there were disability pensions within the social insurance system but there was no national health insurance.

comparison shows that the disability pension can provide higher benefit than sick leave for low incomes within three or four major agreement areas. However, the pattern is more divided with higher incomes. For state employees the disability pension always gives higher compensation than sick leave while the compensation in other areas is higher, but not especially higher, with sick leave than with the disability pension. There may be grounds for discussing which type of differences, if any, are reasonable.

There are also grounds for discussing the total benefit levels and their affect on the scale of early departure from working life. It is also important to note how the disability pension affects the old age pension people receive. We shall return to this question in the chapter dealing with the old age pension.

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# Chapter 6 Benefit on retirement with old age pension<sup>51</sup>

## 6.1 Benefit with old age pension

Old age pension is perhaps the clearest example of how social and agreement-based insurance redistributes income over the life cycle. Those active in the labour market pay and those older than a particular age receive benefit. The pension system can be designed in many ways and these alternative designs lead to different effects for individuals and the economy.

The first question that can be asked is why completely individual solutions are not the predominant form of old age pension. Why are not savings or private insurance the main alternatives? Saving is problematic as the sole solution. At the individual level, there is uncertainty about the length of life. This means that the individual is compelled to save considerably more than would be needed on average to provide a livelihood, even for a long life. This can lead to excessively large saving for the individual and too low consumption. Another problem is that not everyone will save a sufficient amount to be able to support themselves. Other forms of support must accordingly be available, entailing redistribution from those who save for their old age to those who do not do so.

Another possibility would be a system based on voluntary private insurance. This solves one of the problems associated with a solution based on individual saving. In a system of this kind, the individual can strike a balance between consumption during working years and consumption in the years after retirement. A disadvantage with a pure insurance solution is that some individuals will opt for a far too low pension level, so low that they cannot get by on it. This has led to the public sector having to make supplementary benefits available and in practice to there being a transfer from those purchasing pension insurance to those who do not do so. This is an argument for a public pension system or for a

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<sup>51</sup> The authors would especially like to thank Ingvar Backle, Confederation of Swedish Enterprise, Gudrun Ehnsson, Försäkringskassan, Harald Mårtensson, SACO, Hans Rödin, The Swedish Association of Graduate Engineers and Mona Söderström, SPV for valuable points of view on earlier versions.

system that makes it compulsory to take out private pension insurance.

There are several types of solutions for the design of social insurance schemes for old age pensions. There are many components that can be combined in different ways and there are different types of combinations with other benefit systems. Sometimes a categorisation is made according to some basic types of benefit systems or more generally types of welfare states.<sup>52</sup> A first type is where the state provides a basic (low) benefit level and the individuals themselves, the employers or organisations provide the rest. This is usually referred to as the liberal model. In another model, the pension is based on employment. Those who have been employed receive a pension. There may be statutory provisions on the relationship between the wage the person has and the pension the person receives. This model is usually called the corporative model. A third model is the Scandinavian or the social-democratic model, based on a system of universal coverage where the amount of pension is related to income. A fourth solution which can hardly be called a welfare state model is not to have a public system at all. Economically developed countries usually have public systems for old age pensions, however, although the design and level of compensation varies greatly.

It is important in the design and analysis of the systems to take into account the consequences they have in addition to redistribution over the life cycle. How do they affect the incentives for work and saving? Income and wealth tested benefits can be expected to have a negative effect on work and saving. How do the systems affect labour mobility? The pension can, for instance, be based on income earned during all working years, on income earned during a number of working years or the final years of a person's career. The design can affect mobility and the willingness to take early or gradual retirement.

Sweden is a typical case of the Scandinavian model. Everyone is covered by the public old age pension system. Social insurance including old age pension is based on income. There is a ceiling in the social insurance system. Contributions (although lower) are paid above this ceiling that is not corresponded to by subsequent pension payments. However, the model is not totally consistent – and perhaps no country has a wholly consistent model. In addition

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<sup>52</sup> See Esping-Andersen (1990) which established the most frequently applied categorisation.

to pensions from social insurance system, there are also agreement-based pensions, employer commitments on pensions and private pension insurance. These supplementary pensions, not least agreement-based occupational pensions, affect the total pension levels, and they can also affect labour supply and mobility. Why do agreement-based occupational pensions exist alongside well-developed social insurance systems? One explanation is that individuals want to have a different distribution of consumption over the life cycle than that provided by the public social insurance system. This is perhaps of particular interest to those who have income above the level for which benefit is provided in the social insurance system. They may wish to have as high level of compensation above as below the ceiling of the social insurance system. The question then arises of why this is not dealt with on an individual basis – different people can choose to have different consumption patterns during their life cycle. One explanation is that administration costs are lower for agreement-based insurance than for private insurance due to economies of scale and through the insurance being more uniform. A higher benefit level is purchased with lower flexibility. Another argument is the tax relief provided for agreement-based insurance. The insured person has then been able to pay less to receive a particular level of benefit through agreement-based insurance than through private insurance solutions.

There may also be other arguments. There may be reason for the employer to shift some of the payment to employees to the future. The wage does not correspond to productivity throughout the whole period of employment but is below productivity in earlier years of employment and above during the years closest to retirement. One way of postponing the wage is to provide a pension for those who remain in the company until retirement or a particularly favourable pension to those who remain up to retirement.<sup>53</sup> A system of this kind can stimulate additional effort, i.e. higher productivity and loyalty to the company. A pension based on the wage during the last or final years prior to retirement is a typical example of a system of this kind. An economic cost of a system of this kind is that it contributes to locking-in effects – leaving an employment entails a cost in pension benefits and other employers prefer not to employ older persons of working age if the

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<sup>53</sup> See Lazear (1979).

expected pension costs are high. This makes it difficult for those wanting to change jobs and for those who lose their jobs due to company closures to find new employment.

The Swedish wage structure is compressed. An additional levelling out occurs through tax and social insurance system. This levelling out is counteracted by designing pension agreements that provide benefit above the ceiling. This applies in particular to agreements where benefit is provided above the ceiling and where there is a high level of compensation for wage portions above the ceiling. This could be interpreted as meaning that the social partners through agreement-based solutions in the area of pensions have opted to counteract the levelling which has taken place by wage agreements and by redistribution by taxes and income transfers (in among other ways by charges being levied above the ceiling).

In this chapter, we shall first take up the national old age pension system, both the old supplementary pension (ATP) system and the new system. We shall then take up agreement-based occupational pension systems. Other systems exist beside these pensions. Employers can make agreements with employees (in particular, with those with more senior posts and higher income) on special pension agreements. There is also private pension insurance. We will not take up these types of benefits in this chapter.<sup>54</sup>

## 6.2 The old pension system

The national pension system was introduced in 1913 and was initially a combination of a contribution-financed and a contribution-related system, and a means tested system. Certain groups already received a pension through their employers while others, in particular all those working in agriculture and blue-collar workers, had no protection. When they were no longer able to work, they had to rely on assistance from their family or poor

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<sup>54</sup> Nelander (2002) contains an empirical study of the extent to which employees make deductions for expenses for pension insurance in their income tax return. The study shows that 43 per cent of all employees did so in 2000. This is a very large increase since 1989 when the proportion was only 5 per cent. Making deductions is usual among both blue-collar and white-collar workers, although somewhat more common among white-collar workers. Women make deductions somewhat more often than men although, on average, men make somewhat larger deductions. The deductions do not only cover the pension insurance paid by the person himself or herself to an insurance company but also group insurance taken out by a person through a trade union.

relief. The national pension reform had universal coverage, which meant that cover was provided for groups that previously lacked income protection. In different reforms, the national basic pension gradually became less defined contribution and means testing was eased.<sup>55</sup> The national pension system was substantially reformed in 1948 and the national basic pension was subsequently independent of the contributions paid and the income and wealth of the pensioners. Pensions were also increased. Altogether, this meant a great improvement of the situation of pensioners. However, there were still considerable differences between different groups. White-collar workers also as a rule had income-related occupational pensions. As early as the late 1940s, a government committee was appointed to investigate the possibilities of introducing an earnings-related supplementary pension for all those gainfully employed. After a number of committees of inquiry and political conflicts, this eventually led to the introduction of the supplementary pension system (ATP) in 1960, which was earnings-related.

Until 1999, the pension system consisted of national basic pension and ATP. The national basic pension was independent of the previous income<sup>56</sup> and the annual benefit amounted to 96 per cent of price base amount (a price base amount was SEK 39,400 in 2005) for an unmarried old age pensioner and 78.5 per cent for a married old age pensioner. Supplementary pension was available for those with no or low ATP (which together with ATP amounted to 56.9 per cent of a price base amount). There were also a supplement for care of handicapped children, a housing supplement for pensioners and, in some instances, a wife supplement.

A full old age pension from ATP amounted to 60 per cent of the price base amount<sup>57</sup> multiplied by the average of the ATP points earned during the 15 years of earned income with the highest working income that the individual had had since the age of 16:

$$ATP = 0.6 * \text{price base amount} * \text{average points}$$

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<sup>55</sup> See Berge (1998) on the development of the national pension system from its start in 1913 until 1935.

<sup>56</sup> However, not all immigrants receive a full basic pension. A stay of 40 years in Sweden or 30 years with an income of at least a base amount per year is required to receive a full national basic pension. This change in the law was made in 1979. See Ohlson (2004) for an investigation into the effect of the change.

<sup>57</sup> In 1999, the name of the base amount was changed to price base amount. From 1995, the increased (price)base amount was introduced.

The ATP points in a particular year were calculated by dividing the income conferring ATP entitlement (the part of income which is larger than an increased price base amount) by the price base amount for the year. At most 6.5 ATP points may be earned per year.

$$\text{ATP points} = (\text{income conferring pension entitlement} - \text{price base amount}) / \text{price base amount}$$

If a person had at least three but not 15 years with ATP points, the average value of the existing years was used. No ATP was paid if the person has less than three years with ATP points. For full ATP, 30 years with pension points were needed. If the insured had worked fewer years, the pension is decreased in relation to the number of years lacking up to 30 years, with, for example, 20 years of work with ATP credits, 20/30 credits of a full pension was received.

Early withdrawal of old age pension (both national old age pension and ATP) could be made from the month that the insured person attained the age of 61.<sup>58</sup> In the event of early withdrawal, the pension was decreased by 0.5 per cent for each month until the age of 65 and this reduction was life-long. Drawing pension could also be postponed, although at the longest until the month the insured attained the age of 70. In the event of deferred pension, the pension increased by 0.7 per cent for each deferred month and this increase was life-long.

Insured person born in 1937 or earlier receive pension wholly in accordance with the old system with national basic pension and ATP. From January 2003, however, pensions from the old and new system were put on the same basis and national basic pension and ATP were replaced by guarantee and supplementary pension. Insured persons born between 1938 and 1953 receive pension calculated in accordance with a combination of the old and the new system and those born in 1954 or later receive a full pension in accordance with the new system.

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<sup>58</sup> This age limit was changed on two occasions. The age limit was set at 63 at the time of introduction of ATP. When the national pension age was reduced from 67 to 65 on 1 July 1976, the age limit was reduced to 60. On 1 January 1998, the age limit was increased to 61 as an adaptation to the corresponding rule in the new pension system

### 6.3 The new pension system<sup>59</sup>

The current pension scheme started to be introduced in 1999 in stages and the first payment took place in 2001. All parts of the new pension system apply from January 2003. The new national basic pension consists of three parts: income pension, premium pension and guarantee pension. Income and premium pension are based on the whole life income including pensionable income such as sickness benefit, parental benefit and unemployment insurance benefit. Every year, an amount corresponding to 18.5 per cent of the insured person's pensionable income is assigned to an individual pension entitlement. The insured pays 7 percentage points through a national pension contribution up to 8.07 income base amounts. (The income base amount for 2005 is SEK 43,300). Employers pay 10.21 per cent of the wage to the pension system regardless of the wage level, but only contributions up to the ceiling is assigned to the individual pension entitlement.

The 17.21 per cent (7.00+10.21) corresponds to 18.5 per cent of the pension basis. The explanation for the discrepancy is that the national pension contribution of 7 per cent is deducted from income when the pension basis is calculated ( $0.93 \cdot 8.07$  income base amounts = 7.5 income base amounts). From the contributions, 16 percentage points goes to the income pension and 2.5 percentage points to the premium pension.

The contributions paid provide pension entitlement. In addition to wage from employment and income from self-employment, benefit from social and unemployment insurance is also pensionable. Studies (with study assistance), national service (conscription) and years looking after children (years with children up to four years of age) also confer pension entitlement. The pension basis has a ceiling of 7.5 income base amounts before tax per year. Income during the year must amount to at least 42.3 per cent of price base amount to be pensionable.

The pension entitlements that a person can obtain through the contributions paid are calculated every year in three steps. An upward adjustment is made through distribution of inheritance gains (pension rights for those who have died during the year); the pension balance calculated in this way is adjusted upwards by the general development of income with the aid of an income index;

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<sup>59</sup> See Ministry of Health and Social Affairs and National Social Insurance Board (2003) for a presentation of the system.

and the pension balance is decreased by the costs of administering the pension being distributed among the insured.

When the pension starts to be paid, it is calculated taking into consideration a particular growth in the economy and the calculated length of life for the cohort to which the person belongs. It is formally the case that the pension balance is divided by a denominator determined by these two factors. If life expectancy gradually increases, later cohorts will receive a lower income pension than earlier cohorts at a given income. Higher growth in the economy provides higher pensions through indexation.

The pension can be drawn at the earliest from the age of 61. A preliminary denominator is used to calculate the pension for those drawing a pension before the age of 65. This pension is adjusted once the person has attained the age of 65. There is no upper limit for when the pension must start to be drawn. In the previous system, the pension did not become higher if it started to be drawn after the age of 70 than if it was first drawn at the age of 70. The pension now becomes greater, the later it starts to be drawn. This is for two reasons. The period the pension is expected to be paid is shorter the later it starts to be drawn, and the amounts paid into the pension system become greater the longer a person continues to work and earn an income.

The income pension is adjusted upwards from the year it is drawn with the aid of the general income development with a deduction for the rate of growth assumed when calculating the denominator (this growth norm is 1.6 per cent).

The portion of the pension basis set aside for the premium pension is invested according to the choice of the individual in at most five of the funds registered by the premium pension authority, PPM. The amount of the premium pension is thereby affected by the change in value of the funds the individual has chosen to invest his or her money in. The amount of the premium pension is affected like the income pension by when the pension is drawn (at the earliest at the age of 61) and the cohort's estimated remaining lifetime.

Payments for the premium pension can be shared between spouses or registered partners. Only pension entitlement earned in marriage or partnership can be transferred and this is currently done from year to year. However, in the event of transfer the amount transferred is reduced by 14 per cent. The reason for this reduction is that the transfer is mainly expected to take place from



men to women since men have a higher income than women, and since women live longer than men, the transfers would lead to a deficit for the PPM system if the reduction was not made.

If the income pension is low or non-existent, there is a guarantee pension to supplement the pension. The maximum guarantee pension is SEK 6,994 per month for an unmarried person and SEK 6,238 for a married person (2005). To receive a full guarantee pension, a person must have lived in Sweden for 40 years. Guarantee pension can be received at the earliest from the age of 65. Guarantee pension can only be paid to persons who live in Sweden or in EU/EEA countries or in other countries with which Sweden has an agreement. Guarantee pension is not tested in relation to wage, agreement-based pensions or private pensions but only in relation to income pension and premium pension (calculated as if they had been paid from the age of 65). The amount of the guarantee pension is not affected by any transferred premium pension rights.

#### **6.4 Agreement-based occupational pensions**

Pension systems have existed for a long time for different groups of employees, considerably longer than for pensions in the social insurance system.<sup>60</sup> The first pensions were introduced for central government employees: for military personnel in 1756 and for civilian staff in 1770. The organisation of the pensions system for central government employees and financing of this system was gradually changed. For a long time, pension was paid at two-thirds of the final wage. The justification for this was that two-thirds of the wage was compensation for the position held and one-third for the work actually carried out. It should be added here that not all central government employees were covered by the pension system but only those who were permanently employed. The municipalities and county councils subsequently developed pension systems for their employees as did the larger companies.<sup>61</sup> These were modelled to a great extent on the pension system for central government employees. One group that was not covered was blue-collar workers in the private sector, although some companies

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<sup>60</sup> See Harrysson (2000), Schmidt (1974), Sjöfors (1982) and Wadensjö (1997) for some studies of the history of agreement-based occupational pensions.

<sup>61</sup> Prior to 1960, the municipalities had a premium-based and paid-up policy pension system.

introduced pensions for this group as well. As a rule, these pensions were low and were not the result of agreements but came into being as a result of unilateral decisions by the employers and were thus not protected from changes in the employers' policies. Many, but not all, were thus covered by pension systems through their work.

When the ATP system was established in the 1960s, the agreement-based pensions for municipal, county and central government employees and for white-collar workers in the private sector were changed into supplements to national basic pension and ATP. This particularly applied to supplements above the ceiling in the ATP system. However, no such supplementary pension system was created for blue-collar workers in the private sector. The previous pensions were terminated. Members of the Swedish Trade Union Confederation (LO) considered that it was unfair that there was no supplement and LO pursued the issue of the introduction of a system of this kind in negotiations on collective agreements. An agreement of this kind was also eventually concluded: The STP (special supplementary pension) system was introduced in 1973.<sup>62</sup> This meant that all large employee groups were covered by pension agreements that supplemented the pensions from the social insurance system.

There are now four large agreement-based occupational pension systems. These cover the following groups: privately-employed blue-collar workers, privately-employed white-collar workers, central government employees and employees in municipalities and county councils. There are also some agreements that cover smaller areas.

#### **6.4.1 Agreement-based occupational pensions for privately-employed blue-collar workers**

##### **STP<sup>63</sup>**

Blue-collar workers in the private sector received occupational pensions between 1973 and 1994 in accordance with the agreement between SAF and LO on special supplementary pensions, STP. STP was financed by the employer taking out insurance in AMF-

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<sup>62</sup> Unlike the other systems, STP did not provide any benefit for income portions above the ceiling in the ATP system.

<sup>63</sup> See Edebalk and Wadensjö (1989) for a review of the introduction and design of STP.

försäkringar. The fees paid in one year should cover the expected costs for the pensions for those retiring in the same year. STP could be drawn from the age of 65 and the first date for drawing pension could be postponed until the age of 70 (although early withdrawal could not be made). In the event of postponement of the date for drawing pension, STP increased by 0.7 per cent per month postponed. Those entitled to STP were persons who had either earned at least three STP years between the age of 55 and 64 or had earned 0.25 STP years during each of the two calendar years when they attained the age of 63 and 64 respectively. The individual could be credited with a full STP year if he or she had worked for at least 832 hours during the year corresponding to 40 per cent of full-time employment. If working hours amounted to at least 208 but not 832 hours, STP years were calculated by dividing working hours by 832.

To obtain full STP, 30 entitlement years were required. In the case of less than 30 entitlement years, the actual number of years was divided by 30 and multiplied by the pension level. STP years could be earned from the age of 28. The size of the pension was based on the three years between the age of 55 and 59 year when the individual had highest pensionable income. The average ATP points (see Chapter 6.2) from these three years were increased by 1 (to compensate for the base amount deducted when calculating ATP points). The figure reached was then multiplied by the price base amount applicable at the time of retirement and the total was called the pension wage. 10 per cent of the pension wage constituted full STP. STP was only calculated on income up to 7.5 base amounts.

$$STP = (ATP \text{ points (the three best years between 55 and 59 year)} + 1) * \text{the price base amount} * 0.1$$

For an employee who had received a disability pension before the age of 60, the pension points on which the disability pension was calculated in accordance with the National Insurance Act was to be used to calculate the occupational pension wage. (This method of calculation was applied if the occupational pension wage was higher than with normal calculation of STP, otherwise the basic rule was applied.)

The STP scheme was co-ordinated with the pension schemes ITP, PA/SPR, PA-91 and PA-KL (referred to as recognised

pension schemes). This meant that paid-up policies/annuities from recognised pension schemes counted as pensionable time when calculating STP years. Pensionable income that the employee received in other employment also counted as pensionable wage when calculating STP. When an employee attained the age of 65, AMF credited the value of the annuity or paid-up policy from the respective pension scheme.

### **SAF-LO agreement-based occupational pensions**

SAF-LO agreement-based occupational pensions replaced the STP system in 1996. Those born in 1968 or later receive the whole of their occupational pension in accordance with the new agreement-based occupational pension, while those born between 1932 and 1967 receive occupational pensions in accordance with special transitional rules.

The SAF-LO agreement-based occupational pension is a defined contribution system. Premium payments take place through the employer setting aside 3.5 per cent of the wage bill each year. All income is pensionable from the age of 21 (reduced from the age of 28 to 22 in 2000 and to 21 in 2002). Taxable benefits in the form of free meals and accommodation are regarded as income. Wage parts above 7.5 income base amounts are also pensionable. In the event of long-term illness and parental leave (11 months), a premium waiver exemption comes into effect.

The pension can be paid from the age of 55 (not the STP portion), although the pension will be lower if it is drawn before the age of 65. The pension received is lifelong or for a shorter period of payment (at least five years) according to the choice of the individual.

Employees also choose the pension form themselves, traditional pension insurance with a certain lowest guaranteed yield or fund insurance, and who is to manage the funds.

**Table 6.1 Agreement-based occupational pensions per month for blue-collar workers in the private sector (amounts in SEK)**

| <i>Monthly wage at the time of retirement</i> | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|---|---------------|---------------|---------------|
| STP   | 1,500         | 2,456         | 2,456         |
| SAF-LO agreement-based occupational pension*  | 2,300         | 4,700         | 7,800         |

*Note:* The amounts are expressed at 2005 prices. See Appendix 6.1 for a detailed description of the calculation of agreement-based occupational pensions.

\* The starting point is a contribution of 3.5 per cent that has applied since 2000. From 1996 to 1999, the contribution was 2 per cent.

Table 6.1 shows how large the agreement-based occupational pension will be per month for different wages on retirement in accordance with STP and the SAF-LO agreement-based occupational pension. This amounted in accordance with STP to SEK 1,500 for employees who had a wage on retirement of SEK 15,000. According to the new SAF-LO agreement-based occupational pension, the calculated occupational pension is SEK 2,300 for the same retirement wage, i.e. the pension is calculated as being 53 per cent higher. Those who had a retirement wage that was above 7.5 base amounts receive a higher increase of their agreement-based occupational pension since the earnings ceiling of 7.5 base amounts is removed. Employees with a retirement wage of SEK 30,000 per month received SEK 2,456 in STP. The calculated pension in accordance with the SAF-LO agreement for the same retirement wage is SEK 4,700, i.e. an increase of 91 per cent. A person who had a retirement wage of SEK 50,000 received SEK 2,456 in STP. In the new agreement, the agreement-based occupational pension will be SEK 7,800. The agreement-based occupational pension will thus be more than three times higher in the new agreement. However, few people within the agreement area have income above the ceiling in the national pension system (see Chapter 1.3).

#### **6.4.2 The agreement-based occupational pension for white-collar workers in the private sector**

##### **ITP**

The supplementary pension for white-collar workers in industry and trade, ITP, was introduced at the same time as the ATP system in 1960. ITP covers all white-collar workers in the companies covered by the agreement with the exception of managing directors in limited companies. ITP years can be earned from the age of 28. For full ITP, 30 whole entitlement years are required. An entitlement year is earned if the individual worked at least 20 per cent of full-time, defined as eight hours per week (from 2002; the limit was previously 40 per cent/16 hours). If the pensionable employment is shorter than 30 years (360 months), the pension is reduced proportionally by the number of months that are lacking. If the employee has a pensionable period of employment in previous posts for which the ITP scheme is applied, this period of service and pension entitlement earned is counted as pensionable employment and pension entitlement in the new employment as well. If the employee has previously earned entitlement to at least three STP years, all these years may be counted in the pensionable period of employment. Co-ordination also takes place for those who acquired pension entitlement in the central and local government pension systems.

In ITP, the size of the pension is based on the wage (including benefits in kind such as food and accommodation, compensation for regular shift work, time on call and stand-by time) that applied at the time of retirement and an average of commission and production bonus payments during the last three years. When less than 60 months remain to the ordinary retirement age, the pensionable wage can in certain cases be below the actual wage. This can be the case due to wage capping or reduction by a sixteenth. Wage capping means that if the wage increase that occurs during the past five years prior to retirement is larger than an amount set by the Confederation of Swedish Enterprise and PTK, it is not pensionable. Reduction by a sixteenth means that the portion of the wage increase that is larger than inflation, but less than wage capping is only pensionable at so many sixteenth parts that the white-collar worker has left to retirement. The ITP scheme does not apply for employees who have less than 36 months left to

ordinary pensionable age if they have not previously earned in pension in accordance with the scheme or if the time earned together with the remaining time is less than 36 full calendar months (the so-called 36-month rule).

ITP is also paid for portions of wages above 7.5 income base amounts (prior to 2003, ITP was based on the increased price base amount instead of the income base amount). ITP is 10 per cent on wage parts up to 7.5 income base amounts, 65 per cent on wage parts between 7.5 and 20 income base amounts and 32.5 per cent on wage parts between 20 and 30 income base amounts. No ITP is received on wage parts above 30 income base amounts. In 2005, the income base amount is SEK 43,300 and the increased price base amount SEK 40,300.

$$ITP = 0.1 * \text{wage parts} < 7.5 \text{ income base amounts} + 0.65 * \text{wage parts between 7.5 and 20 income base amounts} + 0.325 * \text{wage parts between 20 and 30 income base amounts} + 0 * \text{wage parts} > 30 \text{ income base amounts}$$

The pensionable age in ITP is 65 although ITP can be drawn from the age of 55 with a deduction of approximately 0.6 per cent for each early month taken. If a person instead waits to draw pension from the age of 62, the ITP premiums will be collectively paid-up until the date of the 65th birthday as if a person had worked until the age of 65 with an unchanged wage. The pension is also decreased in this case by approximately 0.6 per cent for each early month it is drawn although the insured person's premiums are paid for another three years, which has made it more beneficial to wait to draw ITP until the age of 62 than to do so earlier. It is also possible to start to draw ITP later, so-called postponed pension up to the age of 70. The value of the pension then increases life-long by approximately 0.5 per cent per month postponed.

An alternative ITP solution is available for persons with a wage higher than 10 income base amounts if the employer offers it. This is a premium-based alternative solution for wage parts above 7.5 income base amounts. The size of the pension received depends on the premiums paid in and the yield on the premiums. It is not possible to take out insurance of this kind on wage parts above 30 income base amounts since there is no pension entitlement for wage parts above 30 income base amounts.

In addition to ITP, there is the ITPK supplementary pension which is paid for five years as standard. However, it is possible to choose payment during another number of years or as lifetime payment. The employer sets aside 2 per cent of the wage up to 30 income base amounts to ITPK from the time that the employee has attained the age of 28 years and the employee may himself or herself choose insurance company and whether the money is to be invested in traditional management with guaranteed interest and a particular bonus or in fund management. Normally, the ITPK pension amounts to 10 per cent of the final wage when drawn over a five-year period after at least 30 years of entitlement (ITPK has existed since 1990).

**Table 6.2 Agreement-based occupational pension per month for white-collar workers in the private sector (amounts in SEK)**

| <i>Monthly wage at the time of retirement</i>      | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|--|---------------|---------------|---------------|
| ITP  | 1,500         | 4,959         | 14,700        |
| ITPK for 5 years paid between the age of 65 and 69 | 3,500         | 7,100         | 11,900        |

*Note:* The amounts are expressed at 2005 prices. See Appendix 6.1 for a detailed description of the calculation of agreement-based occupational pensions.

Table 6.2 shows the agreement-based occupational pension that can be received with ITP and ITPK for three different retirement wages. During the first five pension years, the pension is SEK 5,000 for the employees with a retirement wage of SEK 15,000 to subsequently decrease to SEK 1,500 which is paid life-long. For employees with a retirement wage of SEK 30,000, the pension is just over SEK 12,000 per month for the five years after starting to draw pension to subsequently decrease to around SEK 5,000. For an employee with a retirement wage of SEK 50,000, the occupational pension is estimated at SEK 26,600 for the first five years and subsequently decreases to SEK 14,700.

In the case of disability pension, it is assumed that a premium is paid through premium exemption insurance so that the income-based pension is retained.

ITP is financed by the employer taking out insurance with Alecta or making internal company provisions by taking up the pension commitments as liabilities on the balance sheet within the



framework of the FPG/PRI-model. (See [www.pri.se](http://www.pri.se) for more information.) If the employee terminates his or her employment after the age of 28 but prior to pensionable age, this person is entitled to a paid-up policy for the pension entitlement earned for old age pension and the ITPK pension. The pension in accordance with the paid-up policy is paid by Alecta.

A newly-employed employee is to be notified to Alecta and to provide information to them on previous employment that has not provided pension in accordance with the ITP scheme. On the basis of this information, Alecta sends an enquiry to the previous pension fund or insurance company to co-ordinate the occupational pension with the occupational pension from other agreements. The period of employment earned is added to the calculated period of employment in Alecta and consideration is taken to the paid-up policy received by the employee from previous employment. With this co-ordination, an adjustment is also made of the premium the employer is to pay for the employee. Co-ordination takes place in such a way that the employee receives approximately the same pension benefits as if he or she had had employment in the ITP sphere the whole time. No co-ordination of payment is made, which means that the employee may receive pension from several places.

### **A new agreement**

The Council for Negotiation and Cooperation (PTK) and the Confederation of Swedish Enterprise (former SAF) reached an agreement on a supplementary pension plan, a new ITP-plan, on 25 April 2006. It comes into effect on 1 January 2007. The transition period for the new pension scheme is long. Those born in 1978 or earlier who are covered by the current ITP plan will continue to be so.

Those born in 1979 or later, however, will be fully covered by the new ITP plan, which is a defined-contribution and not as the earlier a defined-benefit plan. Also employers who become members of the Confederation of Swedish Enterprise 1 January 2007 or later or who enter a collective agreement after 25 April 2006 will be able to switch exclusively to a defined contribution ITP system if they reach an agreement with the union.

The fee to be paid by the employer is 4.5 per cent of the fixed cash gross salary up to 7.5 times the income base amount, and 30 per cent on salaries over that ceiling. Fees are paid also during periods with benefit due to sickness, parental leave or for taking care of sick children. The pension is earned between 25 and 65 years of age. Pensions may be paid from the age of 55 but the standard retirement age is 65. Pensions are normally paid life-long but may be taken out during a limited period of five years or more.

The employees choose how to place their contributions to the new ITP-plan. At least 50 per cent of the pension contribution has to be placed in a more secure fund than a pure unit-linked insurance plan.

For those who were born in 1978 and earlier there are some changes in the rules governing the current ITP-plan. The changes entail more options. ITP may be taken out for a limited period instead of life-long and the ITPK capital may be placed with an insurance provider according to choice of the insured are two examples of this. Further review of the rules is announced in the agreement.

### **6.4.3 Agreement-based occupational pension for central government employees**

#### **PA-91**

PA-91 was introduced as a pension scheme for central government employees in 1992. To be covered by the old age pension agreement, it was required that the central government employee was employed for at least 40 per cent of full-time employment, had attained the age of 28 but not 65 and did not receive an occupational pension at the time of commencing employment. 360 months (30 years) of employment were required for a full occupational pension. If the period of employment was shorter, the pension was reduced proportionally by the period of employment which was lacking to receive a full pension. An employee could count periods of employment with central and local government pension entitlement and periods of time in employment with benefit in accordance with the ITP scheme, the STP scheme or an

equivalent pension scheme as pensionable employment.<sup>64</sup> The ordinary pensionable age was 65 except for certain small groups which in most cases had 60 as pensionable age.

The amount of the occupational pension was determined as a particular per cent of the basis for the pension. The average of the last five annual wages prior to the year of retirement was used as a basis for the occupational pension: This average is called the pension basis. The pension basis included fixed wage and benefits in kind (not overtime compensation). According to PA-91, a full occupational pension was 10 per cent of the pension basis up to 7.5 increased price base amounts. The employee received 65 per cent of the pension basis in occupational pension on pension basis between 7.5 and 20 increased price base amounts and 32.5 per cent on the pension basis between 20 and 30 increased price base amounts. The pension amount was calculated on the basis of the increased price base amount that applied the year before retirement year. The pension benefits were financed by the employer.

$$PA-91 = 0.1 * \text{wage parts} < 7.5 \text{ increased price base amounts} \\ + 0.65 * \text{wage parts between 7.5 and 20 increased price base amounts} \\ + 0.325 * \text{wage parts between 20 and 30 increased price base amounts} \\ + 0 * \text{wage parts} > 30 \text{ increased price base amounts}$$

The employee could also start to draw the occupational pension earlier from the age of 60. For every month that the pensions was drawn earlier, it decreased by 2.6 per cent of the pension basis below 7.5 base amounts and 0.4 per cent on the pension basis larger than 7.5 base amounts. In the event of postponed pension, the occupational pension increased by 0.4 per cent for every month that the pension was postponed regardless of the size of the pension basis.

Kåpan Tjänste was paid as a supplementary old age pension at the earliest at the time of retirement on old age pension (at the earliest at the age of 60). The pension could be drawn either lifelong or as a temporary pension. Kåpan Tjänste was financed by the employer paying in the equivalent of 1.7 per cent (increased from 1.5 per cent on 1 April 1995) of the employee's wage as a premium (1.5 per cent to Kåpan Tjänste and 0.2 per cent for

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<sup>64</sup> Employment with pension entitlement in accordance with central government pension arrangements in Denmark, Finland and Norway also provides pensionable periods of employment according to an agreement of 12 December 1973.

administration). Pension entitlement could start to be earned at the age of 28. The amount of Kåpan Tjänste depended on the amount of the premiums paid, the length of time for which premiums had been paid and the yield on the premiums paid. If an employee retired from employment after the age of 28 without entitlement to old age pension, this person was entitled to a paid-up policy from Kåpan. The employee could opt to complement this with private pension saving in Kåpan Plus.

In addition to Kåpan Tjänste, the employer was able from 1 May 1998 to set aside additional contributions to the occupational pension benefit Kåpan Extra. The employer and the local employee organisation could make an agreement to set aside a portion of the available scope for wages or other benefits to Kåpan Extra in a local group agreement. The employees gave up part of the wage or benefits which were instead used for an additional contribution to Kåpan Extra. The additional contribution was credited from the age of 28, the contribution was calculated on the fixed wage and the amount of the contribution determined by local agreement. Few have made use of this opportunity.

### PA 03

From 1 January 2003 PA-91 was replaced by PA 03. PA-91 continued to apply, however, for persons born in 1942 or earlier (1947 or earlier for air traffic controllers and commissioned officers). The pensionable age is 65 for all except certain groups. The pension can be drawn from the age of 61 for those with 65 as pensionable age. Air traffic controllers and commissioned officers retire at the age of 60. They are covered by transitional rules. They can draw pension from the age of 60 or later and the employer pay extra for those affected. Women employees of the social insurance agency Försäkringskassan born in 1947 or earlier receive pension at the age of 60.

The occupational pension consists of two defined contribution pensions – individual old age pension and supplementary old age pension, Kåpan (where the contribution is increased from 1.7 to 2.0 per cent) – and a defined benefit portion for those whose pension basis is larger than 7.5 income base amounts per year.

The individual pension is earned from the age of 23 until pensionable age. The pension is defined contribution – the

employer finances this portion of the pension by paying a contribution for pension insurance. The premium paid is equivalent to 2.3 per cent of the pension basis (all wage paid, other cash pay benefits including overtime compensation and benefits in kind) and the employee chooses how it is to be managed. The individual pension is paid lifelong from the age of 65.

The supplementary pension, Kåpan, is earned from the age of 28 until pensionable age. The premium to Kåpan (which the employer pays to the insurance association for the central government area, Kåpan Pensioner Försäkringsförening) is equivalent to 2.0 per cent of the wage/pension basis up to an annual wage of 30 income base amounts. The employee does not choose the management of Kåpan. Kåpan is usually paid out for five years from the age of 65 but can also be drawn lifelong. The contribution for the defined contribution old age pension is also counted for the period for which disability pension is paid after employment has terminated and for the period for which pension benefit in accordance with the job security agreement is paid (see Chapter 2). In these cases, the contribution is calculated on the pension basis (consisting of fixed wage, other cash pay benefits excluding overtime compensation, and benefits in kind).

The defined benefit pension is paid to those who have a pension basis exceeding 7.5 income base amounts. According to the transitional rules from PA-91 to PA 03, the employee who has a pension basis lower than 7.5 income base amounts will also receive a defined benefit pension if he or she was born in 1972 or earlier (1974 or earlier if they have a pensionable age of 60). The reason is that they can only earn an individual pension and Kåpan for a relatively small number of years. The defined benefit old age pension for those born between 1943 and 1972 decreases successively for every year from 9.5 till 0.5 per cent (by 0.2–0.4 percentage points per annual cohort). Those born in 1973 or later with a wage below 7.5 income base amounts have no defined benefit old age pension. However, those with a wage of above 7.5 income base amounts receive a defined benefit old age pension. Table 6A.2 in *Appendix 6.2* shows the size of the defined benefit pension for the employees of different ages. The defined benefit pension is calculated on the average wage of the pensionable wages in the last five years prior to retirement. The pensionable wage is limited to 30 income base amounts.

The defined benefit pension is earned from the age of 28. To obtain full pension it is required that the employee has worked for 30 years within the area covered by central government pension regulations. The pension is decreased proportionally in the case of a shorter period of work. For employees who had a central government post on 31 December 2002, time prior to this date with a municipal or county council employer is also counted which the employee has been able to be credited with in accordance with the rules then applicable provided that the extent of employment was at least 40 per cent of full-time employment.

*Defined benefit pension wholly in accordance with PA 03 =*  
*0\*pension basis < 7.5 income base amounts + 0.6\*pension basis*  
*between 7.5 and 20 income base amounts + 0.3\*pension basis*  
*between 20 and 30 income base amounts + 0\*wage parts > 30*  
*income base amounts*

The defined benefit pension is financed by the employer paying contributions to the insurance administrator, SPV, which is to be used by the central government employer. Since 1998 the employer pays individual premiums for each employee. Previously, pensions were paid for by a wage cost supplement of 7 per cent of the gross wages bill.

Table 6.3 shows the agreement-based occupational pension received at different final wages within the central government sector. During the first five years as a pensioner, SEK 5,000 a month is received in agreement-based occupational pension per month for those who have a retirement wage of SEK 15,000. The corresponding pensions for a retirement wage of SEK 30,000 and SEK 50,000 are SEK 10,100 and SEK 27,500 respectively for the first five years after starting to draw pension. Subsequently, the pension is SEK 1,500, 3,000 and 15,600 respectively for retirement wages SEK 15,000, 30,000 and SEK 50,000 respectively.

**Table 6.3 Agreement-based occupational pension per month for central government employees wholly in accordance with PA 03 (born in 1973 or later) (amounts in SEK)**

| <i>Monthly wage at the time of retirement</i>        | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|--|---------------|---------------|---------------|
| Individual and defined benefit old age pension       | 1,500         | 3,000         | 15,600        |
| Kåpan for 5 years paid between the age of 65 and 69* | 3,500         | 7,100         | 11,900        |

*Note:* \* Kåpan is calculated assuming that 2 per cent of the wage is set aside for pension which will apply from 2004 (the contribution was 1.9 per cent in 2003). This means that it is as large as ITPK for all retirement wages. See Appendix 6.1 for a detailed description of the calculation of agreement-based occupational pensions.

As previously mentioned, the pension basis is calculated on the basis of the pensionable wage during the five calendar years immediately preceding the year of retirement. If the employee in connection with taking part-time pension has to change to another position with a lower wage, the pension basis is to be determined as if the employee had retired with an old age pension at the time of taking part-time pension.

Disability pension is calculated on the five calendar years immediately preceding the year in which disability pension starts to be received. The pension basis for the calculation of old age pension when an individual has had a disability pension is recalculated by changes in the price base amount during the period of disability pension.

An employee who leaves his or her employment for another reason than starting to receive disability pension is entitled to a paid-up policy with an amount equal to the pension entitlement earned. The paid-up policy is adjusted upwards with the aid of the price base amount. An employee is entitled to draw a paid-up policy at the earliest at the age of 61 (and then in accordance with the regulations that apply for early withdrawal of central government occupational pensions).

### **Part-time pension for central government employees**

The legislation on part-time pension came into force in 1976. Persons aged between 60 and 65, who wished to reduce their working hours by at least five hours a week and continue to work

for at least 17 hours a week could be granted a part-time pension. The part-time pension provided benefit of 65 per cent of the pension basis (see Wadensjö and Sjögren 2000 and Wadensjö 2003 for a survey of the changes in rules and statistics on the development of part-time pension). As part of a new pension agreement in 1994, it was decided to abolish the part-time pension in the social security system and no new part-time pensions were granted from 2001. However, central government employees can still obtain part-time pension in accordance with the agreement that came into force on 1 January 2003 (Agreement on part-time pension for central government employees, Circular 2003:A4).<sup>65</sup>

According to the central government part-time pension agreement, part-time pension can be granted to employees who have had group pension entitlement for a total of 120 months (which do not need to be from the central government sector) and are aged between 61 and 65. Working hours can be reduced to at most half of full-time work, provided that the employer consents to this.<sup>66</sup> The part-time pension consists of 60 per cent of the part-time pension basis and a twelfth of the pensionable supplements paid which are no longer received after the reduction in working hours and which have been paid in the twelve months preceding the reduction in working hours. The part-time pension basis consists of the reduction in working hours in per cent multiplied by the wage. The part-time pension is to be adjusted in the same proportion as the fixed wage is changed. The part-time pension is financed by the employer by the latter paying the part-time pension and a special wage tax (24.26 per cent) on this. Table 6.4 shows benefit in the event of part-time pension of 50 per cent at different wage levels. With a reduction of working hours of 50 per cent, income thus amounts to 80 per cent of the full-time wage.

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<sup>65</sup> Prior to the part-time pension agreement that applies from 1 January 2003 there was a central government agreement that provided supplementary part-time pension for wage parts above 7.5 price base amounts since benefit from the social insurance part-time pension system was limited to income up to this ceiling. This agreement ceased to apply on 1 January 2004 when the final social insurance part-time pension had been paid.

<sup>66</sup> The agreement includes a note that the parties in the first place recommend the employer to grant the employee's request for a reduction in working hours to the greatest possible extent.



**Table 6.4** Income in the event of part-time pension of 50 per cent for central government employees (amounts in SEK)

|  |        |         |         |
|--|--------|---------|---------|
| <i>Monthly wage at the time of retirement</i>  | 15,000 | 30,000  | 50,000  |
| Loss of wage due to reduction in working hours | -7,500 | -15,000 | -25,000 |
| Part-time pension                              | 4,500  | 9,000   | 15,000  |
| Wage   | 7,500  | 15,000  | 25,000  |
| Total  | 12,000 | 24,000  | 40,000  |

*Note:* We have assumed in the calculation example that the pensionable wage is the same as the monthly wage at the time of starting to draw part-time pension.

The part-time pension does not confer pension rights income within the national insurance system which results in the national pension being lower for persons granted part-time pension (see The Swedish Agency for Government Employers comments on the part-time pension agreement). A person with a part-time pension, however, retains entitlement to occupational pension benefits from the ordinary pensionable age as if this person had continued to work at an unchanged extent. The premiums that need to be paid for the occupational pension are not financed by the individual employer but by all central government employers through a collective premium. The defined benefit part of the occupational pension is calculated on the wage that the employee would have had if he or she had not taken a part-time pension which has resulted in this part not being changed for those with part-time pension.

It is possible to carry out paid employment during the time made available by part-time pension. An employee who receives a disability pension (in accordance with PA 03) of at least 50 per cent cannot be granted a part-time pension since the part-time pension agreement requires that the employee works at least 50 per cent of normal full-time working hours. However, if an employee has been granted part-time pension and has subsequently been granted a disability pension in accordance with PA 03, the employee retains the part-time pension. The employee's benefit in the event of illness is based only on part-time work.

#### 6.4.4 Agreement-based occupational pension for county council and municipal employees

##### PA-KL

Until 1998, the agreement-based occupational pension PA-KL applied, which came into force on 1 January 1985, for employees in municipalities and county councils. Pension entitlement was earned from the age of 28 and to receive full pension, 30 years of pensionable time were required (for instance, work, periods of time with sickness benefit or disability benefit) of at least 40 per cent of full-time. If the employee had earned pension entitlement in previous employment, for example a paid-up policy in accordance with the ITP scheme, he or she could count the period of employment on which the paid-up policy was based in their local government pension. On the other hand, the paid-up policy amount was deducted from the local government pension.

The pension was calculated on the basis of the pension wage, which consisted of all wage benefits paid including overtime compensation. On the basis of the pension wage, annual points were calculated by the annual wage being divided by the increased price base amount for the year (the price base amount was used prior to 1995). The increased price base amount was SEK 40,300 in 2005.

$$\text{Annual points} = \text{pensionable wage} / \text{increased price base amount}$$

To determine the pension, the average is calculated of the five highest annual points for the seven years immediately preceding the drawing of the pension. This average is called the annual average point. For part-time pension (prior to 2001) and disability pension, the year was used when the benefit started to be paid as the retirement year for payment of old age pension. Reduced working hours for other reasons during the years prior to 62 years of age for which wages serve as the basis for the amount of pension entail a reduced pension for the rest of a person's life. However, it is possible to work part-time after the age of 62 without the pension being affected.

The old age pension is paid at different percentage rates depending on the annual average points. Table 6.5 shows the formulas used for different annual average points to calculate the

gross pension points. The gross pension points received through the formula in Table 6.5 were multiplied by the price base amount (not the increased one) to get the old age pension gross amount per year. The gross amount was then co-ordinated (reduced) with national basic pension and ATP.

**Table 6.5 Annual average points and pension level in the local government agreement prior to 1998**

| <i>Annual average points</i> | <i>Gross pension points</i>  |
|------------------------------|--|
| 1–2.5                        | $(0.785 * \text{annual average points} + 0.175) * \text{employment years} / 30$  |
| 2.5–3.5                      | $(0.60 * \text{annual average points} + 0.6375) * \text{employment years} / 30$  |
| 3.5–7.5                      | $(0.64 * \text{annual average points} + 0.4975) * \text{employment years} / 30$  |
| 7.5–20                       | $(0.65 * \text{annual average points} + 0.4225) * \text{employment years} / 30$  |
| 20–30                        | $(0.325 * \text{annual average points} + 6.9225) * \text{employment years} / 30$ |

If employment is concluded before pensionable age, the employee can have earned an annuity which is paid from the age of 65. To be entitled to an annuity the employee must have attained the age of 31 when employment was terminated, have had employment where the local government pension agreement applied for at least a year and have at least three years of pensionable income. To obtain an annuity the employee must make an application to their previous employer. The annuity is not affected by national basic pension and ATP.

### **PFA 98 and PFA 01**

In 1998 PA-KL was replaced by the agreement-based occupational pension PFA 98. An employee can from the age of 28 be credited with an annual pension contribution on the contribution base (until 2002, there was a minimum limit of 40 per cent of full-time employment). The contribution base consists of the pensionable wage which consists of the monthly wage, overtime compensation, supplements for work at unsocial hours and supplementary wage. The size of the old age pension depends on the pension wage and the pension contributions paid. Since 1998, the rules for the extent

of employment and the age for earning entitlement have changed.<sup>67</sup> From 2002, there is no minimum level for the extent of employment when calculating pension in PFA – the employer also pays pension premiums for those who work less than 40 per cent of full-time. The entitlement age for earning points was reduced from 28 to 21 for the great majority within the agreement from 2004 (although not for white-collar workers in municipalities).

When PFA 98 was introduced, the new pension consisted of a defined contribution part and a supplementary defined benefit part for those with income above 7.5 increased price base amounts. In 2000 an individual portion was added to the defined contribution part which could be invested by the employee in traditional pension insurance or in fund insurance. Since 2003 the individual can choose how to invest the whole defined contribution part.

Table 6.6 shows the amount of the pension contribution depending on the amount of the pension wage and agreement area from 2003. Table A6.2 in Appendix 6.3 shows the breakdown of the pension contribution between the two defined contribution parts that applied until 2003. If an individual receives monthly benefit from AGS-KL (benefit during the period with sickness benefit, see Chapter 5), the contribution is paid to the defined contribution part of the old age pension through premium exemption insurance.

Pension insurance benefit from the defined contribution part is paid at the earliest from the age of 55 and then temporarily (for at least five years) or lifelong. The size of the defined contribution portion depends on premiums paid in, the yield and the insurance company's charges.

Supplementary old age pension is calculated as a percentage of the annual average point. The annual points refer to the pensionable wage divided by the increased price base amount every year. The annual average point refers to the average value of the five highest annual points for the seven calendar years immediately preceding the drawing of pension. If the employee is granted disability pension, the basis consists of the five and seven years prior to this year. The same procedure applies if the employee's

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<sup>67</sup> The Swedish Municipal Workers' Union concluded a new pension agreement, PFA 01, with The Swedish Association of Local Authorities and The Swedish Organisation for Local Enterprises, KFS, that came into effect on 1 April 2001. The pension agreement PFA 98 continued to apply until further notice for members of other trade unions with updates that in practice entail the same changes as in PFA 01.

employment is changed in connection with drawing of partial old age pension.

**Table 6.6 Pension contributions from 2003 (defined contribution)**

| <i>Agreement area</i>   | <i>Wage up to 7.5 increased price base amounts</i> | <i>Wage over 7.5 increased price base amounts</i> |
|---|--|---|
| Municipal Workers' Union – employed on 31 December 2003 or earlier* | 4.5%   | 2.1%  |
| Municipal Workers' Union – employed on 1 January 2004 or later**    | 4.0%   | 1.6%  |
| OFR-associations and Akademikeralliansen                            | 3.5%   | 1.1%  |

\*The employees who attained the age of 28 at the latest on 31 December 2003 retain a premium of 4.5 and 2.1 per cent respectively (depending on the amount of wages) as long as they are employed in accordance with the principal agreement, the HÖK agreement.

\*\*New employees and those aged under 28 have a premium of 4.0 and 1.6 per cent respectively (depending on the amount of wages).

The supplementary old age pension is paid to those who have had a pensionable wage exceeding 7.5 increased price base amounts. To obtain supplementary old age pension, the annual average point is to exceed 7.5. The amount of the supplementary old age pension is affected by the pensionable wage and the pensionable period. The period of time that the employee has been credited with pension contributions in accordance with PFA-98 from the age of 28 is counted as pensionable time. To obtain full supplementary pension, 30 years of pension contributions are required. The supplementary old age pension is decreased accordingly for shorter periods of time. The supplementary old age pension starts to be paid when the employee terminates his or her employment although at the earliest from the age of 61. Table 6.7 shows how supplementary old age pension is calculated.

If the supplementary old age pension is drawn before the age of 65, the pension is reduced for the lifetime of the person by 0.4 per cent for every month's early withdrawal. In the event of postponed pension, the pension is increased life-long by 0.4 per cent per delayed month.

**Table 6.7 Supplementary old age pension**

| <i>Part of annual average point</i> | <i>Pension level in per cent</i> |
|-------------------------------------|----------------------------------|
| <7.5                                | 0%                               |
| 7.5–20                              | 62.50%                           |
| 20–30                               | 31.25%                           |
| >30                                 | 0%                               |

*Note:* The pension is calculated as part of annual average point\*price base amount\*pensionable time/30\*pension level.

Table 6.8 shows the agreement-based occupational pensions in accordance with PA-KL and PFA for different retirement wages. All employees in municipalities and county councils with a retirement wage of SEK 15,000 receive a higher pension in the PFA than in the old pension system. The pension differs, however, between different groups. Those working within the municipal agreement area receive a pension of SEK 2,700 a month if they have a final wage of SEK 15,000 while the corresponding pensions for county council and municipal employees who work in the areas which the Municipal Workers' Union does not have agreements for are SEK 2,300 and SEK 2,000 respectively per month. This can be compared with the PA-KL agreement-based occupational pension where the corresponding pension was almost SEK 1,400.

**Table 6.8 Agreement-based occupational pension per month for employees in municipalities and county councils (amounts in SEK)**

| <i>Monthly wage at the time of retirement</i>  | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|--|---------------|---------------|---------------|
| Until 1998: PA-KL  | 1,393         | 5,152         | 17,891        |
| From 1999: PFA   |               |               |               |
| Municipal employee within the Municipal Workers' Union's agreement area, employed on 1 January 2004 or later | 2,700         | 5,400         | 22,400        |
| County Council employee  | 2,300         | 4,500         | 20,800        |
| Municipal employee not within the Municipal Workers Union agreement area                                     | 2,000         | 3,800         | 20,000        |

*Note:* See Appendix 6.1 for a detailed description of the calculation of agreement-based occupational pensions.

For an employee with a final wage of SEK 30,000, the agreement-based occupational pension has only improved within the Municipal Workers' Union's agreement area. They receive an increase in the pension of SEK 250 per month compared with what they would have received with PFA. The county council employees with a final wage of SEK 30,000 receive, however, a reduction of the pension of SEK 650 per month, from SEK 5,150 in accordance with PA-KL to SEK 4,500 in accordance with PFA. The municipal employees who do not work within the agreement area of the Municipal Workers' Union receive an even greater reduction of the pension. They would have received SEK 5,150 in occupational pension in accordance with PA-KL while they only receive a pension of SEK 3,800 in accordance with PFA.

At a retirement wage of SEK 50,000, all municipal employees receive a higher agreement-based occupational pension in accordance with PFA than in accordance with PA-KL although here too there are differences between the three agreement areas. Those within the agreement area of the Municipal Workers' Union receive a pension of SEK 22,400 in accordance with PFA, county council employees receive SEK 20,800 and municipal employees who are not within the agreement area of the Swedish Municipal Workers' Union receive SEK 20,000 per month. According to PA-KL, an employee with a final wage of SEK 50,000 received almost SEK 17,900 in agreement-based occupational pension. We would like to draw attention to the fact that few municipal employees have wages above the ceiling in the national pension system (see Chapter 1.3) and that wages of SEK 30,000 even less SEK 50,000 hardly occur within the agreement area of the Municipal Workers' Union's agreement.

### **A new pension scheme – KAP-KL**

The occupational pension system for municipalities and county councils has recently been changed. The parties concluding the agreements made an agreement in principle in summer 2005 and a new agreement was reached in December 2005. The new agreement entail significant changes. It should be underlined here that there will be a relatively long period of transition between the old and the new system. Among the major changes can be mentioned:

1. the benefit ceiling will be adjusted to the national pension system,
2. the contributions will be expressed uniformly in per cent and will be the same below and above the ceiling,
3. the fact that contributions will be the same above and below the ceiling will mean that contributions will be increased markedly above the ceiling and by this eventually also the defined contribution pension for those with an income above the ceiling, which will be counteracted by the defined benefit pension decreasing as a portion of income above the ceiling,
4. a possibility for part-time pension will be introduced; however it differs from that available for central government employees as the details of the contents of the agreement will be determined in local negotiations
5. when calculating old age pension in accordance with PFA, municipal periods of time prior to 1978 may be counted.

## **6.5 A comparison of pension systems and pension levels between different agreement areas**

Table 6.9 summarises the main features of the different pension systems. As shown by the review, the agreement-based occupational pensions differ in various respects. There are considerable similarities between the systems – similarities that have become greater with the changes undertaken in recent years. Three of the systems have changed in the same direction as the social insurance system namely from a defined benefit to a defined contribution system. The scheme for blue-collar workers has gone furthest in this direction, being an entirely defined contribution system. The exception is the ITP system for white-collar workers in the private sector which is still a defined benefit system, apart from certain supplementary parts. However, the new scheme applicable from 2007 is an entirely defined benefit pension. In the central and local government systems, there is as in the ITP system a defined benefit part for those above the ceiling in the social insurance schemes.



**Table 6.9 A comparison of the four agreement-based occupational pension systems**

|                                      | <i>White-collar workers in the private sector (ITP)</i>               | <i>Blue-collar workers in the private sector (SAF-LO)</i> | <i>Central government employees (PFA)</i>  | <i>Local government employees (PA03)</i>  |
|--------------------------------------|---|---|--|---|
| Principle for calculation of benefit | Defined benefit (contribution based portion of 2% of the wage – ITPK) | Contribution-based  | Benefit and defined contribution   | Benefit and defined contribution  |
| Requirement for full pension         | 30 years (after the age of 28)  |   | 30 years (after the age of 28) for the benefit-based portion   | 30 years (after the age of 28) for the defined benefit portion  |
| Basis for the calculation            | Wage during the year prior to retirement                              |   | Average during the five years prior to retirement (plus the defined contribution portion)                  | Average during the five best of the seven years prior to retirement (plus the defined contribution portion)                               |
| Extent of compensations              | 10%–7.5 ba<br>65% 7.5–20 ba<br>32.5% 20–30 ba                         |   | Defined benefit portion:<br>60–64.5% 7.5–20 ba<br>30–32.9% 20–30 ba  | Defined benefit portion:<br>62.5% 7.5–20 ba<br>31.25% 20–30 ba  |
| Financing principle                  | Premium reserve funding   | Funding with individual accounts                          | Funding for the defined contribution portion. Pay-as-you-go for the defined benefit portion.               | Funding for the defined contribution portion with an individual portion of varying amount. Pay-as-you-go for the defined benefit portion. |
| Contribution                         | Employers' contribution (2%)  | Employers' contribution (3.5%)*                           | Employers' contribution (2.3 % for the individual old age pension; 2.0 % for supplementary pension; Kåpan) | Employers' contribution (3.4–4.5 % for the defined contribution portion)  |
| Part-time pension                    | No  | No  | Yes  | No  |

Note: ba=base amounts. \*There is an additional 0.72 per cent for premium exemption insurance.

An overview of the pension levels agreed on in the different agreements at different retirement wage levels is shown in Table 6.10. To enable a comparison to be made between different pension areas, the agreements that contain the ITPK and Kåpan time-limited agreements have to be recalculated to lifetime pensions assuming that the average lifetime is 80 years, i.e. that it is paid for 15 instead of five years.

**Table 6.10 Agreement-based occupational pension per month for 2004 (amounts in SEK)**

| <i>Monthly wage at the time of retirement</i>   | <i>15,000</i> | <i>30,000</i> | <i>50,000</i> |
|---|---------------|---------------|---------------|
| <i>Blue-collar workers in the private sector:</i>   |               |               |               |
| SAF-LO (3.5%)   | 2,300         | 4,700         | 7,800         |
| <i>White-collar workers in the private sector:</i>  |               |               |               |
| ITP   | 1,500         | 3,000         | 14,700        |
| ITPK for 5 years which is paid between the age of 65 and 69   | 3,500         | 7,100         | 11,900        |
| Average pension assuming an average lifetime of 80 years (15 years with pension)*                                       | 2,667         | 5,367         | 18,667        |
| <i>Central government employees:</i>  |               |               |               |
| Agreement-based pension wholly in accordance with PA 03 (born in 1973 or later)   | 1,500         | 3,000         | 15,600        |
| Individual + defined benefit old age pension  |               |               |               |
| Kåpan for 5 years to be paid between the age of 65 and 69   | 3,500         | 7,100         | 11,900        |
| Average pension assuming an average lifetime of 80 years (15 years with pension)*                                       | 2,667         | 5,367         | 19 567        |
| <i>Employees in county councils and municipalities:</i>   |               |               |               |
| PFA   |               |               |               |
| Municipal employees within the agreement area of the Municipal Workers' Union, employed on 1 April 2004 or later (4.0%) | 2,700         | 5,400         | 22,400        |
| County Council employees (3.5%)   | 2,300         | 4,500         | 20,800        |
| Municipal employees outside of the Municipal Workers' Union's area of agreement (3.5%)                                  | 2,300         | 4,500         | 20,800        |

*Note:* \*Five-year pensions have be recalculated to be paid over 15 years in accordance with following:  $X*60=Y$  where X is the five-year pension and 60 is the number of months in five years.  $Y/180$ =average pension for 15 years (180 months).

When we compare the amounts, we find certain differences at a given monthly wage (and wage development). The most important difference is that benefit at high income is considerably lower for blue-collar workers within the private sector than for other groups. However, there are few blue-collar workers in the private sector who have an income above the ceiling in the social insurance system. It is perhaps more important to bear in mind that the amounts are proportionally much higher within three of the agreement areas for those with a high income than those with low income. Most of those with high incomes are within these areas.

## **6.6 The effects of the agreement-based occupational pensions**

An evident effect of the agreement-based occupational pensions is that they increase the total pension income. This can be illustrated in different ways. We do so here by examining the income for men and women aged between 65 and 69. The figures in table 6.11 and 6.12 refer to 1996 and 2002. The amounts for the different pensions are shown separately, and for different deciles. The decile breakdown is based on the total income for the respective person, i.e. also income in the form of wage and income from their own company is included. We see that agreement-based occupational pensions are more important for men than for women (more men than women have an income above the ceiling in social insurance). We also see that the importance of agreement-based insurance increases markedly with the decile number. For men in the tenth income decile, agreement-based insurance is on average larger than the ATP pension. We also see that private pensions are above all important for those with high incomes. If we compare the information from 1996 and 2002 we find that the importance of agreement based pensions and also that of private pensions has increased in comparison with the pensions from the social insurance schemes.

**Table 6.11 Pensions in the form of national basic pension, ATP, agreement-based occupational pension and private pensions in 1996 in different income groups for persons aged between 65 and 69 in SEK thousands**

| Decile | Men                    |       |                                      |                 | Women                  |      |                                      |                 |
|--------|------------------------|-------|--------------------------------------|-----------------|------------------------|------|--------------------------------------|-----------------|
|        | National basic pension | ATP   | Agreement-based occupational pension | Private pension | National basic pension | ATP  | Agreement-based occupational pension | Private pension |
| 1      | 30.5                   | 27.2  | 1.8                                  | 0.4             | 36.8                   | 4.1  | 0.5                                  | 0.1             |
| 2      | 29.2                   | 69.0  | 10.3                                 | 0.6             | 34.0                   | 14.3 | 4.0                                  | 0.3             |
| 3      | 28.8                   | 81.1  | 15.0                                 | 0.7             | 30.9                   | 24.6 | 7.3                                  | 0.6             |
| 4      | 28.5                   | 87.8  | 17.6                                 | 1.0             | 31.0                   | 33.0 | 9.1                                  | 0.8             |
| 5      | 28.1                   | 93.9  | 19.8                                 | 1.6             | 30.1                   | 44.4 | 11.6                                 | 1.2             |
| 6      | 27.6                   | 100.2 | 22.7                                 | 2.8             | 29.7                   | 55.6 | 14.5                                 | 1.5             |
| 7      | 27.1                   | 107.5 | 27.1                                 | 4.8             | 29.5                   | 64.7 | 17.8                                 | 2.0             |
| 8      | 26.6                   | 110.9 | 34.1                                 | 9.4             | 28.6                   | 72.3 | 21.2                                 | 3.3             |
| 9      | 26.1                   | 112.5 | 49.1                                 | 18.5            | 27.7                   | 82.1 | 26.4                                 | 6.2             |
| 10     | 25.7                   | 116.6 | 126.3                                | 43.7            | 26.6                   | 87.6 | 41.0                                 | 21.4            |
| All    | 27.8                   | 90.7  | 32.4                                 | 8.4             | 30.5                   | 48.3 | 15.3                                 | 3,7             |

Note: The decile division is based on the total income for the respective person.

Source: Processing by HINK, Statistics Sweden.

**Table 6.12 Pensions in the form of national basic pension, ATP, agreement-based occupational pension and private pensions in 2002 in different income groups for persons aged between 65 and 69 in SEK thousands**

| Decile | Men                    |       |                                      |                 | Women                  |      |                                      |                 |
|--------|------------------------|-------|--------------------------------------|-----------------|------------------------|------|--------------------------------------|-----------------|
|        | National basic pension | ATP   | Agreement-based occupational pension | Private pension | National basic pension | ATP  | Agreement-based occupational pension | Private pension |
| 1      | 30.6                   | 42.5  | 6.7                                  | 2.4             | 34.6                   | 12.6 | 2.6                                  | 0.8             |
| 2      | 31.0                   | 79.5  | 12.5                                 | 1.5             | 31.5                   | 28.8 | 7.7                                  | 1.4             |
| 3      | 30.5                   | 92.4  | 18.4                                 | 1.6             | 32.5                   | 40.7 | 10.6                                 | 2.0             |
| 4      | 30.0                   | 100.3 | 22.4                                 | 2.7             | 31.3                   | 54.7 | 13.8                                 | 3.0             |
| 5      | 29.6                   | 107.4 | 26.8                                 | 4.6             | 31.1                   | 66.0 | 16.5                                 | 3.6             |
| 6      | 29.1                   | 113.9 | 31.8                                 | 7.5             | 31.0                   | 73.5 | 19.4                                 | 4.8             |
| 7      | 28.9                   | 116.7 | 39.9                                 | 12.9            | 30.3                   | 79.6 | 23.3                                 | 7.5             |
| 8      | 27.6                   | 117.8 | 51.1                                 | 23.1            | 29.4                   | 86.1 | 28.0                                 | 11.7            |
| 9      | 26.9                   | 118.9 | 75.8                                 | 35.7            | 28.4                   | 91.5 | 33.9                                 | 21.3            |
| 10     | 26.4                   | 121.0 | 177.4                                | 61.0            | 27.4                   | 94.5 | 57.9                                 | 40.5            |
| All    | 29.0                   | 101.1 | 46.3                                 | 15.3            | 30.8                   | 68.8 | 21.4                                 | 9.7             |

Note: The decile division is based on the total income for the respective person.

Source: Processing by HEK, Statistics Sweden.

The next question is how agreement-linked insurance affects the supply of labour and mobility. There is an important difference here between the defined contribution portions and the portions which are benefit-based. The defined contribution portions of the agreement systems are uncomplicated to analyse from the point of view of incentive. They can quite simply be viewed as supplements to the national system. Instead of a pension contribution of 18.5 per cent, it will instead be 22–23 per cent. And the individual must make a further decision on how to invest the pension funds.

The defined benefit parts are more complicated. They place great weight on incomes during the year/years immediately preceding the age of 65 or in the case of early retirement with disability pension on income during the year/years before this pension is granted. The fact that not all years are counted equally provides a lower incentive to work during earlier years. The great dependence on income during the years prior to retirement means that a reduction of work input which may be justified for other reasons will not be financially attractive (there are, however, certain possibilities here for a reduction of work without losing pension within the municipal and central government sector). Instead, an earlier retirement with disability pension can be attractive in the cases where it is a possibility. The pension is then calculated on income during the year/years preceding the granting of disability pension.

Another problem with the defined benefit parts of agreement-based insurance is that the costs in certain cases will to a great extent be paid by the last employer which contributes to making it difficult for older persons to change jobs. Mobility in the labour market can be lower due to the existence of this type of pension system than would have been the case with a pure defined contribution system.

A third problem is that these systems make it less attractive to combine work for two employers, for instance, a municipal and a central government part-time work (half-time in both jobs). Even if the wage was still to be the same as in full-time work for one employer, the pension will be markedly lower if the combined income exceeds the ceiling in the income pension system.

## 6.7 Conclusions

Agreement-based pensions cover the great majority in the labour market. Together with pensions from social insurance system, they provide a considerably higher total pension than is provided by social insurance alone. In particular, they provide a higher pension to those who have an income above the ceiling in the social insurance schemes. They are of great importance for groups with relatively high incomes.

There are some problems with agreement-based occupational pensions. This applies primarily to the design of the defined benefit portions. Since the different systems are not wholly co-ordinated in all cases, this can lead to a reduction of mobility. A shift over the border of an agreement area can lead to a lower pension since pensionable years in one system are not counted in full in another system. There may also be problems with regard to mobility within agreement areas. The employer who employs a person in the years immediately preceding retirement can have to bear a large part of the pension cost (the design differs in different systems) and this can lead to employers avoiding employing older persons. Another problem consists of benefit above the ceiling being based on the final wage or the wage during a number of years at the end of a person's career. This can lead to the person avoiding moving to less demanding duties at the end of his or her career and instead leaving completely with benefit in the form of disability pension where this is possible. Another problem is that the design of benefit is such that persons at a given income may receive lower pension if they work partly within one sector and partly within another at the end of their career. To summarise: agreement-based occupational pensions are in some parts designed in such a way that they counteract mobility and encourage an early departure from working life. There are good arguments to study the effects of agreement-based occupational pensions more closely in these respects.

The new EU Commission presented its social agenda on 9 February 2005. According to this agenda "The commission will be issuing a proposal to enable workers to switch occupational pension schemes when they move within and between member states." It can be called into question whether the Swedish agreement-based occupational pensions fully comply with this requirement in all respects.

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## Appendix 6.1. Pension calculations for Chapter 6

### Blue-collar workers in the private sector

STP has been calculated on the assumption that the individual is entitled to full STP and that the average wage for the three years with highest payment from 55 to 59 years of age is the same as the final wage.

*Calculation example:*

$ATP = (\text{annual income} - \text{price base amount}) / \text{price base amount}$

$STP = (ATP + 1) * \text{price base amount} * 0.1$

- 1) An average of SEK 15,000 per month provides ATP points of 3.6 if the price base amount for 2004 is used, SEK 39,300, i.e.  $ATP = (15,000 * 12 - 39,300) / 39,300 = 3.6$ .  $STP = (3.6 + 1) * \text{price base amount} * 0.1 = \text{SEK } 18,078/\text{year} = \text{SEK } 1,507/\text{month}$ .
- 2) An average of SEK 30,000 per month gives max ATP points, i.e. 6.5.  $STP = (6.5 + 1) * 39,300 * 0.1 / 12 = \text{SEK } 2,456/\text{month}$ .
- 3) An average of SEK 50,000 per month gives max ATP,  $STP = \text{SEK } 2,456/\text{month}$ .

*SAF-LO* has been calculated with the aid of AMF's standard template for the SAF/LO agreement-based occupational pension. The calculations are based on an individual starting work at the age of 24, working until the age of 65, drawing the pension lifelong, selecting a traditional pension insurance which provides a yield of 6 per cent and having a repayment cover (i.e. the saved pension capital is paid for five years to selected beneficiaries if the beneficiary dies). The individual may receive the whole of his or her agreement-based occupational pension in accordance with the new system. Charges made by AMF for managing the funds are deducted from the amount. The charge for the traditional insurance is SEK 60 per year when premium is paid in plus 0.3 per cent of the capital each year. The amounts shown in Table 6.1 are expressed at 2005 prices, i.e. the value of the pension is as if it had been drawn in 2005. The calculations are based on the final wage being SEK 15,000, 30,000 and SEK 50,000 respectively for 2005's prices.

### White-collar workers in the private sector

*ITP* is based since 2003 on the income base amount (SEK 42,300 in 2004) instead of the increased price base amount (SEK 40,100 in 2004). If an employee retires in 2004 with a final wage of SEK 15,000, SEK 30,000 and SEK 50,000 respectively, the *ITP* would be calculated in accordance with example 1-3. To be able to compare different agreement areas (private, municipal and central government agreements) all pensions have been recalculated to apply to an employee who started to work at the age of 24 in 2004 and will retire at the age of 65 and that the same rules apply to agreement-based occupational pensions as today. The pensions are then recalculated in accordance with 2005's prices. Pensions within all agreement areas are calculated using AMF's standard template which also includes management charges. When calculating *ITP*, no charges have been deducted since this is not based on funded contributions. However, the income base amount has been adjusted to an estimated value for 2044 when we assume that our employee will retire.

- 1) At a final wage of SEK 15,000 including benefits, *ITP* is SEK 1,500, i.e.. 10 per cent of the final wage.
- 2) At a final wage of SEK 30,000 including benefits,  $ITP = 6,400 \cdot 0.1 + (30,000 - 26,400) \cdot 0.65 = 4,980$ .
- 3) At a final wage of SEK 50,000 including benefits  $ITP = 26,400 \cdot 0.1 + (50,000 - 26,400) \cdot 0.65 = 17,980$ .

*ITPK* has been calculated with the aid of AMF's standard template. The calculations have been based on an individual who starts work at the age of 24, works until he or she is 65, draws pension for five years between the age of 65 and 69 and selects a traditional pension insurance that provides a six per cent yield. Charges deducted by AMF to manage the fund have been deducted from the amount. The charge for the traditional insurance is SEK 60 per year when the premium is paid plus 0.4 per cent of the capital each year. The amounts that are shown in Table 6.2 are expressed at 2005 prices, i.e. the value of the pension if it were to have been drawn today. The calculations have been based on a final wage of SEK 15,000, 30,000 and SEK 50,000 respectively at 2005 prices and that the rate of wage increase is 2.5 per cent and inflation 2 per cent.

## Central government sector

*PA-91* consists of a defined benefit portion and *Kåpan*. The defined benefit pension is calculated on the basis of the increased price base amount (SEK 40 100 in 2004).

- 1) At a final wage of SEK 15,000 including benefits, the defined benefit portion is SEK 1,500, i.e. 10 per cent of the final wage.
- 2) At a final wage of SEK 30,000 including benefits, the pension will be  $25,062 * 0.1 + (30,000 - 25,062) * 0.65 = 5,716$ .
- 3) At a final wage of SEK 50,000 including benefits,  $ITP = 25,062 * 0.1 + (50,000 - 25,062) * 0.65 = 18,716$ .

*PA 03* consists of a defined benefit pension, an individual old age pension and *Kåpan*. In order to be able to compare pensions in different agreement areas (private, municipal and central government agreements) all pensions have been recalculated to apply to an employee who started to work at the age of 24 in 2004 and retired at the age of 65 and that the same rules apply for agreement-based occupational pensions as today. The pensions are then recalculated at 2005 prices, the rate of wage increase has been assumed to be 2.5 per cent and inflation 2 per cent. Pensions within all agreement areas are calculated with the aid of AMF's standard template including management charges. The income base amount has been adjusted to an estimated value for 2044 when we assume that our employee retires.

*Kåpan* is calculated in the same way as *ITPK*. In 2004, the contribution paid to *Kåpan* is 1.9 per cent, although this has been increased in 2005 to 2 per cent which is also the case for *ITPK*. The contribution of 2 per cent that applies from 2005 has been used in the calculations.

## Municipalities and county councils

*PA-KL* is calculated using the formula presented in the chapter.

- 1) For the sake of simplicity, we assume that the average wage for the five best years is SEK 15,000 per month and we use the increased price base amount from 2004. The annual average points will then be  $12 * 15,000 / 40,100 = 4,489$ . We use Table 6.5 and the formula  $(0.64 * \text{annual average points} + 0.4975) * \text{employ-}$

ment years/30. Given that the period of employment is 30, we obtain gross annual points of:  $(0.64 \cdot 4,489 + 0.4975) \cdot 1 = 3,370$ .

The gross annual points of 3,370 are then multiplied by the price base amount:  $3,370 \cdot 39,300 = 132,459 / 12 = \text{SEK } 11,038$  per month.

This amount (SEK 11,038) is co-ordinated with ATP and national basic pension. The price base amount for 2004 is SEK 39,300. The national basic pension for a married pensioner is  $\text{SEK } 39,300 \cdot 0.785 = 30,851 / 12 = \text{SEK } 2,571$  per month.

The same assumption is used to calculate ATP as in the above calculation of STP. An average of SEK 15,000 per month produced there 3.6 ATP points applying the 2004 price base amount of SEK 39,300.

$\text{ATP} = 0.6 \cdot 3.6 \cdot 39,300 = 84,888 / 12 = \text{SEK } 7,074$  per month.

The co-ordination between PA-KL and ATP and national basic pension results in the municipal pension amounting to  $11,038 - 2,571 - 7,074 = \text{SEK } 1,393$  per month.

- 2) For the sake of simplicity, we assume that the average wage for the five best years is SEK 30,000 per month and use the increased price base amount from 2004. The annual average points will then be  $12 \cdot 30,000 / 40,100 = 8,978$ . We use the information in Table 6.5 and the formula  $(0.65 \cdot \text{annual average points} + 0.4225) \cdot \text{employment years} / 30$ . Given that the period of employment is 30 we then obtain  $(0.65 \cdot 8,978 + 0.4225) \cdot 1 = 6.2582 \cdot 39,300 = 245,947 / 12 = \text{SEK } 20,496$  per month.

This amount is co-ordinated with ATP and national basic pension. The price base amount for 2004 is 39,300. The national basic pension for a married pensioner is  $39,300 \cdot 0.785 = 30,851 / 12 = \text{SEK } 2,571$  per month.

To calculate ATP, the same assumption is used as when calculating STP above. An average of SEK 30,000 per month produced ATP points of 6.5 if 2004 price base amount of SEK 39,300 was used.

$\text{ATP} = 0.6 \cdot 6.5 \cdot 39,300 = 153,270 / 12 = \text{SEK } 12,773$  per month.

The co-ordination between PA-KL and ATP and national basic pension resulted in the municipal pension amounting to  $20,496 - 2,571 - 12,773 = \text{SEK } 5,152$  per month.

- 3) For the sake of simplicity, we assume that the average wage in the five best years is SEK 50,000 per month and use the increased price base amount from 2004. The annual average

points will then be  $12 \cdot 50,000 / 40,100 = 14,963$ . We then use the information in Table 6.5 and the formula  $(0.65 \cdot \text{annual average points} + 0.4225) \cdot \text{employment years} / 30$ . Given that the period of employment is 30, we then obtain  $(0.65 \cdot 14,963 + 0.4225) \cdot 1 = 10,148 \cdot 39,300 = 398,816 / 12 = \text{SEK } 33,235$  per month.

This amount is co-ordinated with ATP and national basic pension. The price base amount for 2004 is 39,300. The national basic pension for a married pensioner is  $39,300 \cdot 0.785 = 30,851 / 12 = \text{SEK } 2,571$  per month.

The same assumption is used to calculate ATP as in the above calculation of STP. An average of SEK 50,000 per month there produced ATP points of 6.5 (which is the maximum points) applying the price base amount for 2004 of 39,300.

$\text{ATP} = 0.6 \cdot 6.5 \cdot 39,300 = 153,270 / 12 = \text{SEK } 12,773$  per month.

The co-ordination between PA-KL and ATP and national basic pension has led to the municipal pension amounting to  $33,235 - 2,571 - 12,773 = \text{SEK } 17,891$  per month.

*PFA* for the three agreement areas within the local government sector (municipal agreement, county council agreement, other) has been calculated with the aid of AMF's standard template. The calculates are based on an individual who starts to work at the age of 24, works until the age of 65, draws pension lifelong, chooses a traditional pension insurance which provides a 6 per cent yield and chooses repayment cover (i.e. the saved pension capital is paid for five years to selected beneficiaries if the beneficiary dies). Charges made by AMF for managing the funds are deducted from the amount. The charge for the traditional insurance is SEK 60 per year when the premium is paid in plus 0.35 per cent of the capital each year. The amount shown in Table 6.8 are expressed at 2005 prices, i.e. the value of the pension if it was to have been drawn today. The calculations are based on final wages of SEK 15,000, 30,000 and 50,000 respectively at 2005 prices and that the rate of wage increase is 2.5 per cent and inflation 2 per cent.

## Appendix 6.2. Pension levels in the central government sector

**Table A6.1 Pension level in per cent of the pension basis for the defined benefit old age pension for employees in the central government sector with 65 as pensionable age**

| <i>Birth year</i> | <i>The amount of old age pension on the portion of the pension basis which is</i> |                                   |                                  |
|-------------------|---|-----------------------------------|----------------------------------|
|                   | <i>&lt;7.5 income base amounts</i>  | <i>7.5–20 income base amounts</i> | <i>20–30 income base amounts</i> |
| 1943              | 9.5   | 64.85                             | 32.4                             |
| 1944              | 9.3   | 64.70                             | 32.3                             |
| 1945              | 9.1   | 64.55                             | 32.2                             |
| 1946              | 8.9   | 64.40                             | 32.1                             |
| 1947              | 8.7   | 64.25                             | 32.0                             |
| 1948              | 8.4   | 64.10                             | 31.9                             |
| 1949              | 8.2   | 63.95                             | 31.8                             |
| 1950              | 7.9   | 63.80                             | 31.7                             |
| 1951              | 7.7   | 63.65                             | 31.6                             |
| 1952              | 7.4   | 63.50                             | 31.5                             |
| 1953              | 7.2   | 63.35                             | 31.4                             |
| 1954              | 6.9   | 63.20                             | 31.3                             |
| 1955              | 6.6   | 63.05                             | 31.2                             |
| 1956              | 6.3   | 62.90                             | 31.1                             |
| 1957              | 6.0   | 62.75                             | 31.0                             |
| 1958              | 5.7   | 62.60                             | 30.9                             |
| 1959              | 5.4   | 62.45                             | 30.8                             |
| 1960              | 5.1   | 62.30                             | 30.7                             |
| 1961              | 4.7   | 62.15                             | 30.6                             |
| 1962              | 4.3   | 62.00                             | 30.5                             |
| 1963              | 3.9   | 61.85                             | 30.4                             |
| 1964              | 3.6   | 61.70                             | 30.3                             |
| 1965              | 3.2   | 61.50                             | 30.2                             |
| 1966              | 2.9   | 61.30                             | 30.1                             |
| 1967              | 2.5   | 61.10                             | 30.0                             |
| 1968              | 2.1   | 60.90                             | 30.0                             |
| 1969              | 1.7   | 60.70                             | 30.0                             |
| 1970              | 1.3   | 60.50                             | 30.0                             |
| 1971              | 0.9   | 60.30                             | 30.0                             |
| 1972              | 0.5   | 60.10                             | 30.0                             |
| 1973 and later    | 0   | 60.00                             | 30.0                             |

### Appendix 6.3. Pension contributions in the local government sector

Table A6.2 Pension contributions in 1998 and 2002 respectively

| <i>Agreement area</i>                       | <i>Wage ≤7.5 increased price base amounts</i> | <i>Wage &gt;7.5 increased price base amounts</i> | <i>Wage ≤7.5 increased price base amounts</i> |                           | <i>Wage &gt;7.5 increased price base amounts</i> |                           |
|---|---|--|---|---------------------------|--|---------------------------|
|   | <i>Defined contribution</i>                   | <i>Defined contribution</i>                      | <i>Defined contribution</i>                   | <i>Individual portion</i> | <i>Defined contribution</i>                      | <i>Individual portion</i> |
| Municipal Workers' Union                    | 4.5 %   | 2.1 %  | 3.5 %   | 1.0 %                     | 1.1 %  | 1.0 %                     |
| SKTF, Ledarna, SACO and Nursing/Care unions | 3.4 %   | 1.0 %  | 2.4 %   | 1.1 %                     | 0 %  | 1.1 %                     |
| Teaching and Headmasters unions             | 3.4 %   | 1.0 %  | 2.4 %   | 1.0 %                     | 0 %  | 1.0 %                     |

The employer could also decide on other allocations of the pension contribution between the defined contribution and the individual parts.





## Chapter 7 Parental leave benefit<sup>68</sup>

### 7.1 Aims and objectives of parental leave benefit

There are several objectives for systems of financial benefit for parental leave. Firstly, this kind of benefit aims to increase choice opportunities and improve the economic conditions for families with children and thereby the children themselves. Parental leave benefit can make it financially possible for a parent to stay at home with the child for a specific period and for the parents to have a sounder financial position should either of them remain at home. Secondly, parental leave benefit can be seen as part of the population policy. By improving the conditions for families with children, it can help families to choose to have more children and thus counteract the low level of fertility. Unlike many other social insurance schemes, for example those providing unemployment or sickness benefit, the aim is not for as few people as possible to need it. Thirdly, parental leave benefit can help to increase gender equality on the labour market. The existence of a parental leave benefit scheme and the right to receive benefit from it without losing one's job can help both parents maintain their link with the labour market, in other words it will in practice help women keep their jobs and maintain their link with the labour market to a greater extent than would otherwise be the case. A long-term absence, even with a right to return to work, can still mean a loss of income not just during the period of parental leave but later in the form of poorer or delayed career development. This is an argument against very long benefit periods in parental leave benefit and also an argument that parental leave should be shared between the parents. The introduction of daddy-month(s) is the clearest example of such an approach. There are also other arguments for having rules whereby not all benefit months can be taken by one of the parents.

In this chapter we shall start with a presentation of parental leave benefit in the social insurance system and go on to look at the supplements that are available through agreements between employer associations and trade unions. They are of interest partly

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<sup>68</sup> The authors would like to especially thank Rickard Eriksson, SOFI, Stockholm University, and Jonas Olofsson, Lund University, for their views on earlier versions.

because this is one of the areas where there is greatest variation in the form of the support between different spheres of agreement and also, as will be seen, because the agreement-based supplements are designed in such a way as to counteract a more even distribution of parental leave between the parents. In addition to this type of parental leave benefit, there are local agreements and unilateral employer undertakings.<sup>69</sup> These, however, probably cover far fewer people than the agreements we are considering in this chapter.

## 7.2 The development of parental leave benefit

Parental leave benefit replaced maternity insurance in 1974 and gave fathers as well as mothers the right to parental benefit. The period of benefit was a maximum of 180 days, the benefit was available up to and including a maximum of 180 days after childbirth and was equivalent to sickness benefit, which was then 90 per cent of the annual income on which sickness benefit entitlement is based (SGI) up to 7.5 times the base amount, but with a guarantee level (lowest benefit) of SEK 25 per day. Parental benefit also conferred entitlement to supplementary pension (ATP) and was subject to tax. A year later the number of benefit days was increased by 30 to 210 days.

Special parental benefit was introduced in 1978 whereby the period of benefit was increased by 90 days which could be taken up to and including the child's first school year. The guarantee level was raised to SEK 32 per day. In 1980 the special parental benefit was lengthened to 180 days and the guarantee level was set to SEK 37.

In 1986 special parental benefit ceased but the period of parental benefit was increased to 360 days of which 90 days received benefit at the guarantee level, which was then raised to SEK 48 per day, and the remaining days received benefit at 90 per cent of SGI up to 7.5 times the base amount. Parental benefit could be taken until the child reached the age of four. The guarantee level was raised to SEK 60 in 1987. In 1989 the period of parental benefit was extended by a further 90 days to 450 days. Of these 450 days 90 days received benefit at the guarantee level of SEK 60.

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<sup>69</sup> The Equal Opportunities Ombudsman (2000) reports some examples of individual employer solutions, e.g. at Ericsson, Statoil, Telia and ABB.

A childcare allowance of SEK 2,000 per month was introduced in 1994 for parents who choose wholly or partly to abstain from paid employment in order to look after the child. The period for which parental benefit was applicable was reduced to 360 days but the guarantee level was raised to SEK 64 per day.

In 1995 several changes were made. The childcare allowance was abolished. The mummy- and daddy-month were introduced (30 days which could not be given up to the benefit of the other parent) while parental benefit was increased to apply to 450 days of which 90 days received benefit in accordance with the guarantee level, which was lowered to SEK 60 per day. The benefit level was lowered to 80 per cent of SGI apart from 60 days which were remunerated at 90 per cent.

The benefit level was reduced by another step to 75 per cent of SGI in 1996 with the exception of the daddy-month, which received benefit at 85 per cent of SGI. In 1997 the benefit for the daddy-month was also lowered to 75 per cent. In 1998 the benefit level was raised to 80 per cent.

Two new benefit levels were introduced in 2002: (i) the basic level of SEK 120 per day and (ii) the lowest level of SEK 60 per day. Parental benefit was increased by a further 30 days to 480 days of which 90 days received benefit at the lowest level. The daddy-month was extended to 60 days per parent. The basic level was raised to SEK 150 per day in 2003 and to SEK 180 per day in 2004.

### 7.3 Parental leave benefit in 2005

Parents are each entitled to 240 days' parental benefit with an opportunity to transfer days to the other parent except for 60 days which are reserved for each of the parents individually, the so-called daddy-months. For 390 days parental benefit is a minimum of SEK 180 per day (the basic level) or 80 per cent of SGI divided by 365. For 90 days the benefit is SEK 60 per day (lowest level). The daddy-months are remunerated in accordance with SGI or the basic level. The highest SGI that is paid is 7.5 times the price base amount. In 2005 the price base amount is SEK 39,400, which means that the highest benefit is 80 per cent of a monthly wage of SEK 24,625 ( $39,400 \cdot 7,5/12$ ) = SEK 19,700 per month gross. The benefit can be taken as a whole, three-quarters, half, a quarter or

eighth of a day. It can be taken until the child has reached the age of eight or has completed the first year at school.

A person who gets pregnant with an additional child before the previous child has reached the age of one year and nine months is entitled to parental benefit based on at least the same income as for the calculation of parental benefit during the period at home with the previous child.

#### **7.4 Benefit for parental leave according to agreements**

There are agreements on supplements to parental leave benefit in different parts of the labour market. It is important to note that we are referring here to benefits paid by the employer and not agreement-based insurance schemes. It is therefore not the case that the employer or employee pays a premium and the benefit is then paid by an insurance company when the employee takes parental leave. The employer pays the benefit directly to the employee. Employer participation is therefore 100 per cent with regard to the part that lies outside the benefit from the social insurance system. A justification for employer participation that is often put forward in other areas is that it can lead to the employer taking various measures to prevent benefit needing to be paid, for example measures that help to reduce the risk of occupational injuries or employees falling ill. Such arguments are not appropriate in this case. There are no arguments for having a system that gives the employer an incentive to carry out measures that help to reduce the number of pregnancies among employees. An argument usually advanced against employer participation is that it leads to the employer being more selective in recruitment. In this case the result can be that employers avoid taking on women who are of an age where they might be expected to have children (men are expected to take a smaller proportion of the parental leave and are probably not therefore affected in the same way).

First we shall present details of the number of days and the maximum amounts a parent can receive in benefits from social insurance and the employer in accordance with the collective agreements. We will then show the number of days of benefit entitlement and the amount that parents can receive together depending on which sphere of agreement they work in.

### 7.4.1 Benefits paid to a parent employed by central government

Parental benefit supplement for central government employees is a maximum of 330 days per parent and is paid for days when the employee takes parental benefit above the lowest level (also called SGI-based parental benefit). To receive benefit the employee must have been employed by the authority or in the area of the authority for at least 90 consecutive days before the start of parental leave. The parental benefit supplement is 10 per cent of the daily wage up to the parental leave benefit ceiling. For wage portions that exceed the parental leave benefit ceiling the parental benefit supplement is 90 per cent of the daily wage. Local agreements which deviate from the central agreement may be concluded.

**Table 7.1 Benefit per month for parental leave for a parent employed in the central government sector at different wage levels according to parental leave benefit and agreements between the Swedish Agency for Government Employers, SACO-S, SEKO and OFR (amounts in SEK). The price base amount for 2004 is used (SEK 39,300)**

| <i>Monthly wage</i>                           | <i>15,000</i>                            | <i>30,000</i>                            | <i>50,000</i>                            |
|---|--|--|--|
| Parental benefit from social insurance office | 12,000 for 330 days<br>2,700 for 90 days | 19,650 for 330 days<br>2,700 for 90 days | 19,650 for 330 days<br>2,700 for 90 days |
| Parental benefit supplement as per agreement  | 1,500 for 330 days                       | 2,450+4,900=<br>7,350 for 330 days       | 2,450+22,900=<br>25,350 for 330 days     |
| Total   | 13,500 for 330 days<br>2,700 for 90 days | 27,000 for 330 days<br>2,700 for 90 days | 45,000 for 330 days<br>2,700 for 90 days |

*Notes:* The calculations are based on the existing agreement between SACO-S, SEKO and OFR on the one hand and the Swedish Agency for Government Employees on the other. Main agreement: Circular 2000:A3. Replaces Circular 1993:A6, 1995:A8 and 1996:A11. Not applicable for the Social Insurance Agency's employees. Local agreements concluded within OFR's areas of organisation for civil servants, police and officers. Local agreements can also be made within SACO-S and SEKO. General wage and benefit agreement ALFA, Circular 2002:A5.

Table 7.1 shows how much a parent employed in the central government sector can receive in benefit for parental leave if he/she takes all the days a parent is entitled to (the other parent takes only benefit for the two daddy-months and the parent in the example above takes the remaining number of days).

#### **7.4.2 Benefit for a municipally-employed or county council-employed parent**

Parental benefit supplement for municipally-employed and county council-employed is paid to employees who have been continuously employed for at least 365 calendar days before taking parental leave. The parental benefit supplement, which is equivalent to 10 per cent of the salary, is paid for one month if the employee has been employed for at least 365 but not 730 consecutive calendar days or for two months if the employee has been employed for at least 730 consecutive calendar days. Half the amount is paid when the period of leave is started and the rest when the employee has returned to work and has worked for three months for the employer after the period of leave.

If the monthly wage exceeds 62.5 per cent of the price base amount (the annual income is higher than 7.5 times the price base amount), the employee also receives a benefit which together with the highest amount in the parental leave benefit gives 80 per cent of the monthly wage for 270 calendar days (9 months) for income portions above the ceiling in the social insurance system provided that the employment has been for at least 180 consecutive days. Benefit is only payable for days on which the employee is entitled to parental benefit above the lowest level from the social insurance office. The periods for which benefit is drawn may total a maximum of three.

**Table 7.2 Benefits per month for parental leave for a parent employed by the municipality or county council at different wage levels according to the parental leave benefit and agreements between the Swedish Association of Local Authorities and Regions and the association of professional unions Akademikeralliansen (SACO) and agreements for the Swedish Church (amounts in SEK). The price base amount for 2004 is used (SEK 39,300)**

| <i>Monthly wage</i>                           | <i>15,000</i>   | <i>30,000</i>   | <i>50,000</i>   |
|---|---|---|---|
| Parental benefit from social insurance office | 12,000 for 330 days<br>2,700 for 90 days                              | 19,650 for 330 days<br>2,700 for 90 days  | 19,650 for 330 days<br>2,700 for 90 days  |
| Parental benefit supplement as per agreement  | 1,500 for 30/60 days  | 3,000+4,350=<br>7,350 for 30/60 days<br>4,350 for 240/210 days                              | 5,000+20 350=<br>25 350 for 30/60 days<br>20 350 for 240/210 days                           |
| Total   | 13,500 for 30/60 days<br>12,000 for 300/270 days<br>2,700 for 90 days | 27,000 for 30/60 days<br>24,000 for 240/210 days<br>19,650 for 60 days<br>2,700 for 90 days | 45,000 for 30/60 days<br>40,000 for 240/210 days<br>19,650 for 60 days<br>2,700 for 90 days |

*Notes:* The calculations for municipal and county council employees are based on agreements between SACO and Akademikeralliansen and the Swedish Association of Local Authorities and Regions. Agreement AB01 and Kyrkans AB01.

Table 7.2 shows the benefit that a municipal or county council employee receives during parental leave from social insurance and agreements if he/she takes all the available leave (the other parent takes only benefit for the two daddy-months and the parent in the example above takes the remaining number of days).

#### **7.4.3 Agreement concerning benefit for parental leave within the private sector**

The parental wage complements parental benefit for private employees covered by agreements signed between trade union organisations and employer associations. The terms and conditions differ between the various spheres of agreements. The "typical" parental wage for privately-employed white-collar workers tops up the benefit so that the total amount comes to 90 per cent of the wage for one to four months and 10 per cent both above and below the social insurance ceiling for privately-employed blue-collar

workers. To be granted parental allowance the employee must normally have worked for the employer for at least one continuous year. In most sectors half of the parental wage is paid when the period of leave begins and the other half when the employee has been back with the employer for three months after taking parental leave. There are also agreements which give benefit for much longer periods, but also agreements where only the woman can receive a parental wage, which is then known as pregnancy pay. There are considerable variations in the types of agreement between different segments of the private sector. Below are three examples which show this large variation.

- (i) The collective agreement between on the one hand the Employers Organisation of the Swedish Banking Institutions (BAO) and on the other hand Jusek, the Swedish Association of Graduates in Business Administration and Economics, the Swedish Association of Graduate Engineers, and the Financial Sector Union of Sweden gives the right to an allowance from the employer of 10 per cent of wage parts below the social insurance ceiling of 7.5 times the base amount and 80 per cent of wage parts above the ceiling over 360 calendar days provided that the parental benefit is taken within 18 months from the child's birth and that the entire parental benefit is taken from the Social Insurance Agency (Försäkringskassan) each calendar day. The withdrawal periods should not be more than three and the employee should undertake to return to work for a time at least equivalent to his/her period of notice. The benefit period is longer than for municipal employees, while the amount of benefit per month is somewhat lower than for employees in the central government sector for those with incomes above the ceiling.
- (ii) In the private sector the benefit is usually payable over a maximum of three months. Bearing in mind the fact that it is particularly men who work in the private sector, the short benefit period could be interpreted to mean that the compensation is a supplement during the two daddy-months plus an additional month. In practice, the explanation is quite different. There has been a gradual development from pregnancy pay for three months (benefit only for women) to benefit for three months immediately connected with the



child's birth and payable both to women and men (though in practice nearly always to women) and to benefit for three months which can be taken during the first 18 months after the child's birth and can be payable both to women and men. All these three forms still exist.<sup>70</sup>

The appendix to this chapter contains a presentation of a number of agreements which are of this most common model. Here we shall give an example that tallies with most of the agreements in the private sector.

Companies who are members of Almega Service Employers' Association and the Media and Information Employers' Association pay parental allowance on pregnancy or the child's birth (adoption) if the employee has worked for the employer for at least one continuous year, the employment continues for at least three months after the leave, and the leave takes place within 18 months of the child's birth. If the employee has been employed for one but not two consecutive years, the size of the parental allowance is one monthly wage minus 30 deductions for sickness calculated as for illness from and including the 22<sup>nd</sup> day. This means in practice that the white-collar worker receives 10 per cent of his/her monthly wage per month if the monthly wage is lower than the social insurance ceiling. If the white-collar worker receives a wage that is higher than the ceiling, he/she receives 10 per cent of the portion of the monthly wage that is below the ceiling plus 90 per cent of the portion of the monthly wage that is above the ceiling for a month. If the person concerned has been employed for two but not three consecutive years, the parental allowance is payable for two months and if he/she has been employed for more than three years in succession, the parental allowance is paid for three months. Half of the amount is paid when the leave begins and the rest when the employee has been back at work for three months after the period of leave. Parental allowance is not payable if the employee is excluded from entitlement to parental benefit according to the National Insurance Act.

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<sup>70</sup> The agreement between the Swedish Metal Workers' Union and the Swedish Metal Trades Employers' Association for the years 2000 and 2004 was of the second type; the months taken should be linked to the child's birth. The Metal Workers' Union instituted proceedings at the Labour Court and argued that the agreement contravened the Gender Equality Act and constituted discrimination against men. The Labour Court rejected the Metal Workers' Union's claim. See Arbetsdomstolen (2003).

- (iii) The collective agreement of the employer association the Swedish Association of Staff Agencies<sup>71</sup> gives a female employee who takes leave as a result of pregnancy or in connection with the birth or adoption of a child the right to a pregnancy pay from the employer provided that the employee is not excluded from entitlement to parental benefit according to the National Insurance Act. The female employee must have worked for the employer for at least one continuous year and must return to work for at least three months after taking the leave. The pregnancy pay is 10 per cent of the monthly wage per month. For monthly wage portions which exceed 7.5 times the base amount divided by 12 the pregnancy pay is 90 per cent. For blue-collar workers who are paid by the hour, the pregnancy wage is 10 per cent of the average wage during ordinary working hours over the three-month period immediately preceding the period of leave. The pregnancy pay is payable for a month if the female employee has been employed for one but not two years in succession and for two months if the employee has been employed for two or more consecutive years. If the period of leave is shorter than one or two months, pregnancy pay is not payable for a period longer than that covered by the leave. Half the amount is paid when the period of leave begins and the rest three months after the employee has returned to work after the period of leave.

#### 7.4.4 Parents' total benefit levels and benefit periods

The total agreement-based benefit that parents can receive depends on the sphere of agreement or areas in which they work. Table 7.3 shows the maximum benefit that parents can receive depending on which sphere of agreements they work in. All benefits are calculated on the basis of a monthly wage of SEK 30,000<sup>72</sup>. For benefits from private agreements we have used for white-collar

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<sup>71</sup> Agreement between the Employer Association of Staff Agencies on the one hand and the Building Workers' Union, the Electricians' Union, the Building Maintenance Workers' Union, the Graphic and Media Workers' Union, the Commercial Employees' Union, the Hotel and Restaurant Workers' Union, the Industrial Workers' Union, the Municipal Workers' Union, the Food Workers' Union, the Metal Workers' Union, the Musicians' Union, the Painters' Union, the Paper Workers' Union, the Forestry and Timber Industry Workers' Union, SEKO and the Transport Workers' Union on the other.

<sup>72</sup> We are aware of that few blue-collar workers in the private sector earn SEK 30,000/month.

worker a “standard agreement” where benefit is payable for three months at 10 per cent of wage portions below the ceiling and 90 per cent above the ceiling, and for blue-collar workers a “standard agreement” where benefit is payable for three months at 10 per cent of the wage.

Table 7.3 shows the number of days with the benefit levels that those on parental leave receive within different sphere of agreements, and it also shows the maximum average monthly benefit level that parents can receive during the SGI-based parental benefit days (390 days), provided that they share the parental leave between themselves in such a way as to maximize the income. We will first show how many days at maximum benefit parents who work within the different sectors of the labour market are entitled to and how they should divide the leave between them in order to receive maximum benefit payment. We shall then compare the average benefit that parents can receive according to agreements and social insurance schemes during the SGI-based parental leave days.

### **Both parents employed in the central government sector**

For central government employees the agreement-based benefit coupled with parental leave benefit gives a benefit equivalent to 90 per cent of the monthly wage for a maximum of eleven months (330 days) per parent. The central government benefit is only paid, however, on the days when a parent on leave takes SGI-based parental benefit. The parents together have 13 months (390 days) with SGI-based parental benefit. This means that if both parents are central government employees, they can receive a benefit equivalent to 90 per cent of the monthly wage for a maximum of 13 months in respect of parental benefit. Thereafter they receive benefit in accordance with the basic level of parental leave benefit for a maximum of three months. It therefore makes no difference how the parents divide the days between themselves; they receive equal benefit payment irrespective of who is at home with the child, provided that their wages are equal in size.

### **Both parents employed by the municipality or county council**

For municipal or county council employees the agreement-based benefit is paid *per childbirth*. This means that parents jointly have nine months (270 days) of the municipality's or the county council's agreement-based benefit for wage portions above the social insurance ceiling (two months of agreement-based benefit which together with the parental leave benefit provides remuneration equivalent to 90 per cent of the monthly wage and seven months of benefit equivalent to 80 per cent). If both parents work within the municipality or county council and have a wage that exceeds the ceiling, they may share these 270 days between them. It is therefore an advantage in this context if only one of the parents is employed within the municipal sphere of agreement and the other within a different sphere of agreement. In such a case one of the parents can receive benefit for the maximum period within the municipal area and another for a number of months, for example, according to an agreement within the private sector. They then jointly receive supplementary benefit for more days than if both had been employed within the municipal area. This is examined in more detail below.

A further complication when both parents are affected by the municipal agreement is that they must be aware of the regulations when they first draw their benefit. If one parent starts to draw benefit, that benefit will continue to be paid to him/her from the municipal system unless the parent say that payment should cease. It can be advantageous to save days with the municipal supplement for the other parent if that person receives higher compensation through having a higher income.

### **Both parents employed in the private sector**

In our calculations we have used a private sector "standard agreement" where parental allowance is paid for three months per parent. Privately-employed parents jointly receive benefit in accordance with the agreement for six months. Blue-collar workers receive benefit equivalent to 10 per cent of the monthly wage, which means that the agreement-based benefit together with the parental leave benefit is equivalent to 90 per cent for wage portions below the social insurance ceiling and 10 per cent for wage portions

above the social insurance ceiling. White-collar workers generally receive better agreement-based benefit, which together with parental leave benefit is equivalent to 90 per cent of the monthly wage both above and below the ceiling.

### **A central government employee and a municipally-employed or county council-employed parent**

A benefit equivalent to 90 per cent of the monthly wage may be received for 13 months provided that the central government-employed parent takes the maximum permitted number of days, which is equivalent to eleven months, and the municipally-employed or county council-employed parent takes two months' parental leave. If the municipally-employed parent takes more than two months, the level of benefit is reduced to an equivalent of 80 per cent of the monthly wage for the period of parental leave that exceeds two months.

### **A central government employee and a privately-employed parent**

A 90-per cent benefit may be received for 13 months if one parent is a central government employee and the other a privately-employed white-collar worker. To achieve this maximum benefit the central government employee must take parental leave for 10–11 months while the privately-employed white-collar worker/parent must take parental leave for 2-3 months.

If one parent is a privately-employed blue-collar worker and the other a central government employee, the latter may receive a benefit equivalent to 90 per cent of the monthly wage for a maximum of eleven months while the former can receive benefit over and above the parental leave benefit equivalent to 10 per cent of the monthly wage for three months. To maximize the incomes with parental leave the central government employee should take eleven months' parental leave and the private-sector blue-collar worker two months' parental leave.

**A municipally-employed or county council-employed parent and a privately-employed parent**

Where one parent works for a municipality or a county council and the other is a privately employed white-collar worker, the maximum benefit from the social insurance office together with the agreement-based benefit can amount to a sum equivalent to 90 per cent of the monthly wage for five months and 80 per cent of the monthly wage for seven months. To receive this maximum benefit the municipally-employed or county council-employed parent must take parental leave for at least nine months and the privately employed white-collar worker for at least three months.

Where a parent is a municipal or county council employee and the other is a privately employed blue-collar worker, the benefit from agreements and social insurance can total a maximum of 90 per cent of the monthly wage for two months and 80 per cent of the monthly wage for seven months for the municipally-employed parent while the privately-employed blue-collar worker can receive benefit over and above parental leave benefit equivalent to 10 per cent of the monthly wage for three months. To maximize the incomes with parental leave the municipal or county council employee/parent should be at home for at least nine months and the privately-employed blue-collar worker at least three months.

**Table 7.3 Maximum benefit level parents can achieve during SGI-based parental benefit days (390 days) depending on sphere of agreement and a monthly wage of SEK 30,000. The price base amount for 2004 is used (SEK 39,300)**

| <i>Agreement</i>                    | <i>Central government</i>  | <i>Municipality and county council</i>  | <i>Private sector: white-collar worker</i>  | <i>Private sector: blue-collar worker</i>  |
|-------------------------------------|--|---|---|--|
| Central government                  | 27,000 for 390 days<br><br>Total SEK 351,000<br>(average SEK 27,000/mth for 13 months) | 27,000 for 390 days<br><br>Total SEK 351,000<br>(average SEK 27,000/mth for 13 months)  | 27,000 for 390 days<br><br>Total SEK 351,000<br>(average SEK 27,000/mth for 13 months)  | 27,000 for 330 days<br>22,650 for 60 days<br>Total SEK 342,300<br>(average SEK 26,331/ month for 13 months)  |
| Municipality and county council     |  | 27,000 for 60 days<br>24 000 for 210 days<br>19,650 for 120 days<br><br>Total SEK 300,600<br>(average SEK 23,123/mth for 13 months) | 27,000 for 150 days<br>24 000 for 210 days<br>19,650 for 30 days<br><br>Total SEK 322,650<br>(average SEK 24,819/mth for 13 months) | 27,000 for 60 days<br>24 000 for 210 days<br>22,650 for 90 days<br>19,650 for 30 days<br>Total SEK 309,600<br>(average SEK 23,815/mth for 13 months) |
| Private sector: white-collar worker |  |   | 27,000 for 180 days<br>19,650 for 210 days<br><br>Total SEK 299,550<br>(average SEK 23,042/mth for 13 months)                       | 27,000 for 90 days<br>22,650 for 90 days<br>19,650 for 210 days<br>Total SEK 286,500<br>(average SEK 22,038/mth for 13 months)                       |
| Private sector: blue-collar worker  |  |   |   | 22,650 for 180 days<br>19,650 for 210 days<br>Total SEK 273,450<br>(average SEK 21,035/mth for 13 months)  |

*Note:* The calculations are based on the assumption that a municipal employee has been employed for at least two years.

### Comparison between different parent couples and sphere of agreements

The maximum benefit that parents can receive for parental leave is, as mentioned, dependent upon the sphere of agreement in which the parents work. The calculations in table 7.3 are based on a monthly wage for all parents of SEK 30,000. The average benefit parents can receive during the 13 months with SGI-based parental benefit from the social insurance office together with the

agreement-based benefits varies considerably depending on the sphere of agreements in which the parents work.

The highest benefit level is received when at least one of the parents works within the central government sector; if one parent is a central government employee and the other is either a municipal/county council employee or a privately-employed white-collar worker, a benefit of SEK 27,000 per month can be achieved and if one parent is a privately-employed blue-collar worker, the average monthly benefit will be SEK 26,331 over 13 months.

The lowest benefit levels are for couples where both parents are privately-employed blue-collar workers. Here, however, it should be emphasized that few blue-collar workers in the private sector receive a wage of SEK 30,000 a month. These parents receive an average benefit of SEK 21,035 per month over 13 months. This gives a benefit that is nearly SEK 6,000 less per month than for the parents employed in central government in spite of the fact that they have the same work incomes. Other combinations of sector affiliation give benefits between just over SEK 22,000 to almost SEK 25,100 per month.

## **7.5 Effects of benefit for parental leave**

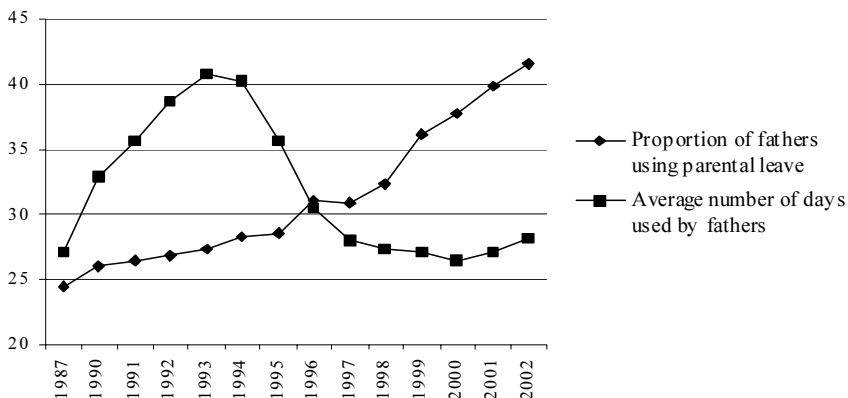
The benefit granted for parental leave, both within the framework of the social insurance and the agreement-based kind, helps families with children to achieve a better financial position with leave to care for children and makes it financially possible for a parent to take time off from work. It can also promote more childbirth than would have been the case without the benefit system. Another question is whether the benefit is designed in such a way as to encourage a more even distribution of the leave between men and women. In the National Social Insurance Board's (2003) study entitled "Tid och pengar" (Time and Money) 29 per cent of the mothers and 34 per cent of the fathers who were asked gave the answer that the chosen division between the parents depended upon economic factors. The more the mother and the father earned, the more equally they shared the parental benefit. Both higher wages for the woman and for the man appear to be correlated with increased time at home for the man.



### 7.5.1 Effects of benefits from parental leave benefit within the social insurance system<sup>73</sup>

It is mostly the women who take advantage of parental leave benefit. Figure 7.1 shows the proportion of fathers who have taken parental benefit and the average number of days that the fathers have taken between 1987 and 2002. The proportion of fathers who are on parental leave increased slightly between 1987, when 24.5 per cent of the fathers took parental benefit, and 1994, when 28.3 per cent took paternity leave. In 1995 the daddy-month was introduced and since then the proportion of fathers who have taken parental leave has increased to 41.6 per cent. On the other hand, the number of days that the fathers have taken parental leave has seen a different development. In 1987 the fathers took parental benefit on an average of 27 days. The number of father's days increased through to 1993–1994 when the average was just under 40 days. Since the daddy-month was introduced, the average number of days fathers have spent at home on parental leave has fallen to around 27–28 days during the years 1997–2002. This is not due to the fact that the groups of fathers who previously took parental benefit are now taking less but that the incoming groups of fathers drawing parental benefit are taking fewer days and they are therefore lowering the average.

Figure 7.1 Paternity leave



Source: The National Social Insurance Board (2003).

<sup>73</sup> See Wadensjö (2004).

The fact that the women take the major portion of the parental benefit affects women's and men's wages and thus their relative economic position. One of the most important wage-influencing factors is working life experience which in wage equations is usually included as the number of years of gainful employment. Absence in the form of parental leave leads to less working life experience and thus to lower wages. Studies also show that non-professional activity in the form, for example, of parental leave leads to even lower wages than a lack of working life experience would lead to on its own.<sup>74</sup>

The fact that women often take most of the parental leave can lead to women, irrespective of whether they are taking or have taken parental leave, receiving lower wages and poorer career development.<sup>75</sup> Knowledge of the differences in women's and men's attitudes towards taking parental leave can lead employers to decide that it is more "risky" to employ women than men. If a man and a woman with similar expertise apply for a vacant position, the employer might therefore prefer the man. Alternatively, the woman can be offered the job at a lower wage in order to compensate for the risk that she might take parental leave (Lazear and Rosen, 1990). This form of discrimination is usually known as statistical discrimination. Statistical discrimination of an individual is based on the employer not having information on the productivity of individuals when decisions are taken but being aware of the average and variation for different abilities for different groups and using this information.

Why then do women take more days than men from parental leave benefit? A lot of factors contribute to the unequal distribution of use by men and women of parental leave benefit in the social insurance system. Here we will examine how the design of the parental leave benefit scheme in the social insurance system can affect this distribution although we are very much aware that other factors can be very important.

Parental leave benefit does not compensate for the whole loss of income – the compensation level is not 100 per cent. There is moreover a ceiling of 7.5 price base amounts on the income which is compensated for. Since the man in most couples has a higher

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<sup>74</sup> See Albrecht et al. (1997).

<sup>75</sup> A study of obligatory employer-paid leave for mothers (eight weeks) in Taiwan shows that this reform led to poorer wage and employment development for younger women compared with equivalent development for older women and for men. See Lai and Masters (2005).

income than the woman, the loss of income during the parental leave benefit period will be lower if the woman stays at home than if the man does so.

As mentioned previously, wage usually increases with work experience. An additional year of work experience leads on average to a higher hourly wage. This is a standard result that applies in Sweden and in other countries. A standard result is also that the return for an extra year of work is higher for men than for women.<sup>76</sup> One explanation of this difference is that men more often than women have a job with career development and that there is a "glass ceiling" for women's career development even when they have the same type of work as men. The loss of income during the years after parental leave is as a rule greater for the family if the man stays at home than if the woman does so.

Research also indicates that absence gives an extra minus in wage development in addition to the minus that less work experience leads to.<sup>77</sup> According to estimations made, this minus is greater for men than for women. This is even more the case if the absence is due to parental leave. One explanation may be norms and expectations in working life: If a man stays at home with children, it can be perceived by the employer as a signal that he is not focused on work and his career, while if a woman stays at home, this does not affect the employer's view of her focus on work and career in the same way (women are expected to be absent but not men). In this case as well, the loss of income will be greater in the years after parental leave if the man stays at home than if the woman does so. This negative wage effect for men of parental leave would probably decrease if men took a certain number of months of parental leave as a rule. In that case, parental leave could not be interpreted as a signal on a lower degree of focus on work and career.

The factors mentioned here lead to a paradox. What is rational at the level of the individual can have undesired effects at the level of society. The fact that the man's income is as a rule affected more negatively than the woman's income of parental leave both during the leave and afterwards is a financial argument for the family for the woman to stay at home. Or to put it in another way: An anticipated greater loss of the man staying at home leads to it being the woman who takes the loss of income. The fact that it is the

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<sup>76</sup> See, for example, different chapters in Westergård-Nielsen (ed.) (1996).

<sup>77</sup> See Sundström and Duvander (1998).

woman who takes the parental leave does not perhaps lead to financial problems for her during parental leave – the family's income will be greater in this way. However, in the longer term, it can lead to differences in financial strength within the family since the man's financial position is relatively strengthened and to differences in the level of life after a divorce (and these differences continue after retirement since the pension is based on the income of the individual).

### **7.5.2 Effects of agreement-based benefit in parental leave**

The supplements to parental leave benefit differ between different spheres of agreement and it is therefore difficult to give a complete picture of the effects that can be expected from these agreements. However, we can clarify some effects of different features of the agreement solutions:

- a) benefit above the ceiling,
- b) special conditions and
- c) differences between different spheres of agreement.

We will also take up the information problems that exist both regard to the national parental leave benefit and benefits decided by agreement.

#### **Benefit above the ceiling**

In common for all spheres of agreement is that benefit is paid for portions of income above the ceiling in the social insurance system. This means that the economic incentives in the social insurance system for the person who has the lower income, which is usually the woman, to stay at home will be weaker. It should be underlined here that there are considerable differences between spheres of agreement, in particular as regards the period for which benefit is paid. If the period is shorter than the compensation from parental leave benefit, there may be little or no effect on incentives.

In section 7.4.4, we took up how parents could combine their parental leave to obtain maximum compensation. In this section, we examine instead the effect of the agreements and parental leave benefit on gender equality with regards to the distribution of

parental leave between the man and the woman and make a comparison between the compensation level attained by maximising income and the level of compensation obtained by the parents if they share the leave equally.

In our examples below, both the man and the woman have an income of SEK 30,000 per month. Our analysis is thus based on the man and the woman having equally high income. Table 7.4 shows the benefit the parents would obtain from agreements and parental leave benefit if they used half of the days each. Table 7.5 shows the differences between the maximum benefit the parents would receive on parental leave and the compensation they would receive if they took half of the days each.

As long as both parents work in the same sector, the benefit does not differ between the case where the parents share the parental leave with a view to maximising benefit and the case when they take out half of the days as shown in Table 7.5. If, however, one parent is a central government employee and the other works in another sector, the families lose between SEK 1,000 and 3,000 per month by not sharing parental leave in accordance with the principle of maximising income. This means a loss of income totalling between SEK 13,500 and SEK 39,000 throughout the whole 13 month period depending on the sector they work in. If, for instance, the mother is a central government employee and the father is a blue-collar worker in the private sector, the family loses altogether almost SEK 39,000 over 13 months if the parents were to share the parental leave equally. If the mother works in the central government sector and the father is a white-collar worker in the private sector, the family loses almost SEK 26,000 in income over 13 months and if the father instead works in the municipal sector, the loss of income is almost SEK 13,500. The generous central government agreement results in economic incentives for the family to share the leave days in such a way that the parent employed in the central government sector takes the greatest share of parental leave.

**Table 7.4 Level of benefit when parents share half of the parental leave (195 days) each**

|   |   | <i>PARENT A</i>   |   |   |   |
|---|---|---|---|---|---|
| <i>PARENT B</i>                               | <i>Central Govt</i>                             | <i>Central government</i>   | <i>Municipality and county council</i>          | <i>Private sector: white-collar worker</i>      | <i>Private sector: blue-collar worker</i>       |
|   |   | A:<br>27,000 for 195 days   | A:<br>27,000 for 60 days<br>24,000 for 135 days | A:<br>27,000 for 90 days<br>19,650 for 105 days | A:<br>22,650 for 90 days<br>19,650 for 105 days |
|   |   | B:<br>27,000 for 195 days   | B:<br>27,000 for 195 days                       | B:<br>27,000 for 195 days                       | B:<br>27,000 for 195 days                       |
|   | Total SEK<br>27,000/month<br>for 13 months      | Total SEK<br>25,962/month<br>for 13 months                            | Total SEK<br>25,021/month<br>for 13 months      | Total SEK<br>24,017/month<br>for 13 months      |   |
|   | <i>Municipality and county council</i>          | A:<br>27,000 for 30 days<br>24,000 for 105 days<br>19,650 for 60 days | A:<br>27,000 for 90 days<br>19,650 for 105 days | A:<br>22,650 for 90 days<br>19,650 for 105 days |   |
|   |   | B:<br>27,000 for 30 days<br>24,000 for 105 days<br>19,650 for 60 days | B:<br>27,000 for 60 days<br>24,000 for 135 days | B:<br>27,000 for 60 days<br>24,000 for 135 days |   |
|   |   | Total SEK<br>23,123/month<br>for 13 months                            | Total SEK<br>23,983/month<br>for 13 months      | Total SEK<br>22,979/month<br>for 13 months      |   |
|   | <i>Private sector:<br/>white-collar worker</i>  | A:<br>27,000 for 90 days<br>19,650 for 105 days                       | A:<br>22,650 for 90 days<br>19,650 for 105 days |   |   |
|   |   | B:<br>27,000 for 90 days<br>19,650 for 105 days                       | B:<br>27,000 for 90 days<br>19,650 for 105 days |   |   |
|   |   | Total SEK<br>23,042/month<br>for 13 months                            | Total SEK<br>22,038/month<br>for 13 months      |   |   |
| <i>Private sector:<br/>blue-collar worker</i> | A:<br>22,650 for 90 days<br>19,650 for 105 days | A:<br>22,650 for 90 days<br>19,650 for 105 days                       |   |   |   |
|   | B:<br>22,650 for 90 days<br>19,650 for 105 days | B:<br>22,650 for 90 days<br>19,650 for 105 days                       |   |   |   |
|   | Total SEK<br>21,035/month<br>for 13 months      | Total SEK<br>21,035/month<br>for 13 months                            |   |   |   |

*Note:* The calculations apply on the assumption that a municipal employee has been employed for at least two years.

The municipal agreement also provides incentives for parents where one is employed in the municipal sector and the other in the private sector to let the municipally employed parent take the lion's share of parental leave. By sharing parental leave equally between them, the parents lose almost SEK 11,000 in 13 months compared with if the municipal employee had taken the largest share.

**Table 7.5 Differences in benefit in the case of parental leave shared in accordance with the maximisation of income principle and the equality principle**

|  | <i>Central government</i>                 | <i>Municipality and county council</i>             | <i>Private sector: white-collar worker</i>         | <i>Private sector: blue-collar worker</i>          |
|--|---|--|--|--|
| <i>Central Govt</i>                        | SEK 0/month<br>SEK 0 for the whole period | SEK 1,038/month<br>SEK 13,494 for the whole period | SEK 1,979/month<br>SEK 25,727 for the whole period | SEK 2,983/month<br>SEK 38,779 for the whole period |
| <i>Municipality and county council</i>     |   | SEK 0 /month<br>SEK 0 for the whole period         | SEK 836/month<br>SEK 10,868 for the whole period   | SEK 836/month<br>SEK 10,868 for the whole period   |
| <i>Private sector: white-collar worker</i> |   |  | SEK 0/month<br>SEK 0 for the whole period          | SEK 0 /month<br>SEK 0 for the whole period         |
| <i>Private sector: blue-collar worker</i>  |   |  |  | SEK 0/month<br>SEK 0 for the whole period          |

There are thus considerable differences in benefit between different spheres of agreement. This means that there are economic incentives for benefit being taken by the parent who has the agreement that provides the best benefit. The general picture is that benefit is clearly best in the central government sector, followed by a couple of agreements in the private sector, then by agreements in the municipal and county council sector while the majority of agreements in the private sector have the least favourable conditions. If women and men are randomly distributed between different sectors, differences between different spheres of

agreement cannot be expected to influence whether men or women take parental leave. However, if it is the case that women on average are employed in spheres of agreement which provide higher benefit and men in sectors that provide lower benefit, this can counteract a more even distribution of parental leave between women and men. We know that women are most often employed in the public sector and men most often in the private sector. See information in Chapter 1. The combination of the design of the different systems and the allocation of men and women to different spheres of agreement have the effect of providing incentives to distribute parental leave benefit in such a way that women take the majority of months. It is an empirical question to examine more closely the nature of this distribution of men and women in relevant age groups and the effects that can be expected from the differences in benefit between different spheres of agreement.

### Special conditions

In a number of spheres of agreement, there are rules that markedly differ from those that apply for parental leave benefit in the social insurance system.

- a) In certain areas, only the woman can obtain supplementary benefit – it is then called pregnancy pay. This construction does not encourage a more even distribution of parental leave between men and women. The same applies to the agreements which have as conditions that benefit is only paid for months taken out close in time to the birth of the child.
- b) In the municipal/county council sphere and according to some private agreements, there are rules that the person who takes benefit only receives half of the amount during the leave and the rest first on return to work or after having worked for a particular period after going back to work. This entails a form of restriction on mobility and if both parents take parental leave a double set of restrictions on mobility for the family. This can contribute to an uneven distribution of parental leave.
- c) Another restriction on mobility is that there are “qualifying periods” to be able to receive the extra benefit, qualifying periods, which can only be calculated on the time worked at the current employer and not time in the labour market. A



minimum period of employment at the employer before leave is required to obtain benefit. Moreover the number of months of benefit also varies with the duration of employment at the employer. These components of the benefit system hinder mobility in the labour market. The fact that they are designed in the way described here can be explained by them not being agreement-based insurance but benefits directly from the employer.

### Information problem

In 2003, the National Social Insurance Board carried out a study on, among other things, the knowledge of parents of small children<sup>78</sup> about parental benefit and parental leave. The results show that there is a generally spread view that parental leave and parental benefit are benefits that are to a very great extent reserved for the mother. Only just over half of mothers of small children and just over a third of fathers of small children know that the mother and father are entitled to an equal number of days. This type of misinformation may affect the distribution of parental leave between men and women.

There are also information problems associated with the great variation in extra benefit from the employer and the design of agreements in different spheres of agreement. An initial problem is that people are not aware of how the agreements are constructed when they make decisions about applying for a new job. For some people, this can entail unexpected negative outcomes which they could perhaps have avoided if they had had information (and for others an unexpected positive outcome). Another problem is that not everyone is informed about the conditions in the agreement for benefit for parental leave in the agreement that they are covered by. This can lead to them making different decisions than they would have done if they had had correct information. Perhaps even more problematic is that it is not certain that all receive the payment that they are entitled to in the agreement since neither employees nor employers always have sufficient information.

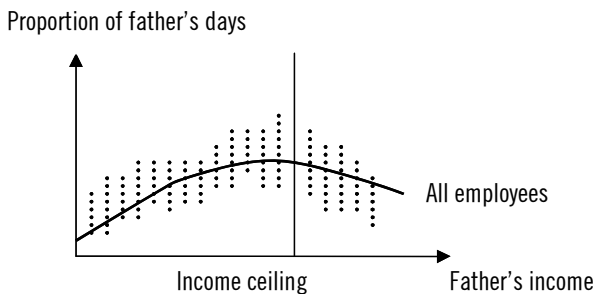
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<sup>78</sup> Parents with children aged between zero and three.

## 7.6 The absence of agreement-based benefits in research and reports

It is very important that agreement-based benefit paid for parental leave is included in research on the distribution of parental leave between parents. If these benefits are left out, the results of the estimates can be distorted and interpretations accordingly misleading. An example of this is when researchers investigate how economic incentives affect the taking of parental leave and its distribution between the parents. Swedish research indicates that the correlation between the father's income and the proportion of days he takes out is positive but declining with income (see, for instance, Sundström and Duvander, 2002 or Bygren and Duvander, 2005). This is illustrated in Figure 7.2 which shows a hypothetical estimated positive but declining correlation between income and the proportion of father's days with underlying data points. The positive although declining correlation is assumed to be due to the family losing so much in income from letting fathers with a high income be at home since income above the ceiling is not compensated for in the parental leave benefit scheme, that it is not possible for couples to make a more equal distribution of parental leave. However, this line of reasoning does not take into account that many employees in fact receive benefit over the ceiling through collective agreements.

**Figure 7.2 Estimate of parental leave days taken based on income**



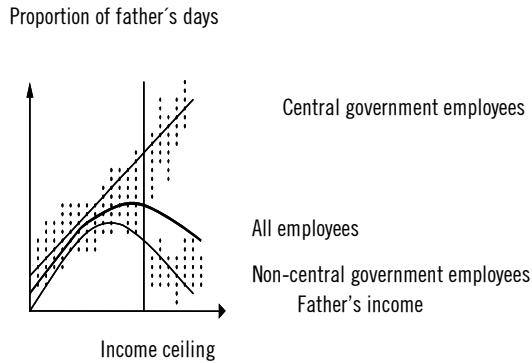
As previously presented, central government employees receive benefit corresponding to 90 per cent of their wage for eleven months, municipal and county council employees 80 per cent for

nine months, the privately-employed white-collar worker receives as a rule 90 per cent for three months and the private sector blue-collar worker receives as a rule benefit corresponding to 90 per cent below the ceiling and 10 per cent above the ceiling.<sup>79</sup> These benefits lead to a drastic reduction in the loss of income when on parental leave. If agreement-based benefits were to be taken into account in research on the distribution of parental leave, the correlations between the father's income and the share of parental leave days would appear to be different for employees in different sectors. For instance, it could be the case that the proportion of days taken by the central government or local government employed fathers would be linearly positively increasing for the wages where good compensation is received also above the ceiling, as illustrated in Figure 7.3. Comparing the effect of income on the number of days for central government employed fathers alone in "all sectors", we obtain the result that income affects the proportion of father's days more positively for fathers employed in central government than for fathers in all sectors: if benefits above the ceiling increased, fathers would take a larger share of the days. This is also shown by the hypothetical estimated correlation between income and parental leave for men in the private sector: low benefit above the ceiling leads to short parental leave for fathers.

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<sup>79</sup>Sundström and Duvander (2002) investigate how parents of children born in 1994 distribute the leave days between them. In 1994, both the central and local government benefit was equivalent to 90 per cent of the salary. Before pay bargaining in 1998, the parental wage was reserved for the women in most private sector agreements and was called pregnancy pay. Since then, the parental leave has been gender neutral in most private sectors.

**Figure 7.3 Estimation broken down by central government and non-central government sector**



The above reasoning that benefit above the ceiling would increase the number of father's days is only a hypothesis. An empirical study must be carried out to investigate whether this is really the case. Bygren and Duvander's (2005) research on parents' workplaces and the distribution of parental leave points in this direction. However, they have not broken down their data according to central government, municipal and private employment but show (with the aid of a dummy variable) that fathers who work in the private sector take fewer father's days than fathers in other sectors. They explain this by the generous central and local government agreements and the fact that the employees in private companies have greater difficulty in being on leave from work since their absence reduces the profit opportunities of the private company. Since central government employers do not have the same profit requirements, the employee does not feel the same pressure to be at work which results in the father taking more parental leave.

## 7.7 Conclusions

Benefits that supplement parental leave benefit exist throughout the labour market. However, there are large, surprisingly large differences between different spheres of agreement. These benefits and changes of them over time can have effects not only on the conditions for family finances but also on the distribution of

parental leave between spouses. From the point of view of research, the variation in benefits can be used to better investigate the effects of parental benefit.

It is important to note that there is no agreement-based insurance in this area but agreements on supplementary benefit paid for by the employer. Since there are no arguments in this area for employer participation such as exist in a number of other areas and employer participation could have an effect on recruitment in such a way that the employer avoids employing women of fertile age, there is reason to discuss the present form of financing those benefits.

It is also important to note the information problem. The reimbursement conditions differ markedly between different areas although individuals scarcely have knowledge about the different systems, which can lead to them making different decisions than they would have done with better information. It may also be the case that some individuals do not take the benefit that they are entitled to when neither they nor the employer have sufficient knowledge about its content.

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## Appendix to Chapter 7. Regulations for pregnancy pay according to agreement in the private sector

In the agreements, birth also means adoption/the date on which the child arrived. The agreements apply from 1 April 2004 to 31 March 2007 unless otherwise indicated below. The agreements for white-collar workers apply to SACO trade unions, TCO trade unions and the Swedish Association for Managerial and Professional Staff (Ledarna) (CF, SIF and Ledarna have negotiated for PTK).

Pregnancy pay is only paid if the employee receives parental benefit in accordance with the National Insurance Act. To qualify for parental benefit, a period of employment of at least a year is required as shown below.

| <i>Agreement</i>  | <i>Duration</i>   | <i>Payment</i>                           | <i>Monthly wage under the ceiling</i> | <i>Monthly wage above the ceiling</i> | <i>Leave must be taken</i>                                 | <i>Special requirements</i> |
|---|---|--|---------------------------------------|---------------------------------------|--|-----------------------------|
| Almega IT Employers' Association;<br>IT agreement;<br>White-collar workers                                  | 2 or 3 months respectively if employed for at least 1 or 3 years respectively         | –  | 10%                                   | 90%                                   | Within 24 months of birth                                  | Periods of at least 1 month |
| Almega IT Employers' Association;<br>Telecom;<br>White-collar workers                                       | 2 or 3 months respectively if employed for at least 1 or 3 years respectively         | –  | 10%                                   | 90%                                   | Within 24 months of birth                                  | Periods of at least 1 month |
| Almega Samhall Employers' Association;<br>White-collar workers  | 1,2,3 or 4 months respectively if employed for 1,2,3 or at least 4 years respectively | In connection with ordinary wage routine | 10%                                   | 90%                                   | Within 10 years of birth                                   | –                           |
| Almega Samhall Employers' Association – Industry<br>Blue-collar workers <sup>1</sup>                        | 1 or 2 months respectively if employed for or at least 1 or 2 years respectively      | In connection with ordinary wage routine | 10%                                   | 10%                                   | Leave is to be taken directly after the birth of the child | –                           |
| Almega Samhall Employers' Association – Service Employers' Association;<br>Blue-collar workers <sup>1</sup> | 1 or 2 months respectively if employed for 1 or at least 2 years respectively         | In connection with ordinary wage routine | 10%                                   | 10%                                   | Leave is to be taken directly after the birth of the child | –                           |
| Almega Service Employers' Association development and services;<br>White-collar workers                     | 3 months  | –  | 10%                                   | 90%                                   | –  | –                           |

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| <i>Agreement</i>  | <i>Duration</i>   | <i>Payment</i>  | <i>Monthly wage under the ceiling</i> | <i>Monthly wage above the ceiling</i> | <i>Leave must be taken</i>  | <i>Special requirements</i>   |
|---|---|---|---------------------------------------|---------------------------------------|-----------------------------|---|
| Mining Employers' Association;<br>White-collar workers  | 1,2 or 3 months respectively if employed for 1,2 or at least 3 years respectively | Half of the amount paid before leave of absence, the remaining part 3 months after return to work | 10%                                   | 90%                                   | –                           | Work for at least 3 months after leave                                      |
| Mining Employers' Association;<br>Blue-collar workers   | 1,2 or 3 months respectively if employed for 1,2 or at least 3 years respectively | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 10%                                   | Within 18 months from birth | Work for at least 3 months after leave                                      |
| The Co-operative Movement's negotiating organisation  | 1 och 3 months respectively if employed for 1 or at least 2 years respectively    | Monthly in connection with ordinary wage routine  | 10%                                   | 90%                                   | Within 18 months from birth | Periods of at least 1 month   |
| Food companies;<br>White-collar workers   | 3 months  | Paid in connection with leave of absence  | 10%                                   | 90%                                   | Within 18 months from birth | –   |
| Food companies;<br>Blue-collar workers  | 3 months  | Paid in connection with leave of absence  | 10%                                   | 10%                                   | Within 18 months from birth | –   |
| The Transport Group;<br>White-collar workers  | 1 or 3 months respectively if employed for 1 or at least 2 years retrospectively  | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) Periods of at least 1 month |
| The Federation of Swedish Forestal and Agricultural Employers – Agriculture and Horticulture;<br>White-collar workers         | 3 months  | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) At most 3 periods of leave  |
| The Federation of Swedish Forestal and Agricultural Employers – Forestry;<br>White-collar workers                             | 3 months  | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 90%                                   | Within 18 months of birth   | 1) Work for at least 3 months after leave<br>2) One period of leave         |
| The Federation of Swedish Forestal and Agricultural Employers – Timer scaling;<br>White-collar workers<br>Blue-collar workers | 1 respectively 3 months if employed for or at least 2 years respectively          | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 10%                                   | Within 24 months of birth   | Work for at least 3 months after leave                                      |
| The Steel and Metal Association;<br>White-collar workers  | 1,2 respectively 3 months if employed for 1,2 or at least 3 years respectively    | Half of the amount before leave, remaining part 3 months after return to work                     | 10%                                   | 90%                                   | –                           | Work for at least 3 months after leave                                      |
| The Steel and Metal Association;<br>Blue-collar workers   | 1,2 or 3 months respectively if employed for 1,2 or at least 3 years respectively |   | 10%                                   | 10%                                   | Within 18 months of birth   | Work for at least 3 months after leave                                      |



| <i>Agreement</i>  | <i>Duration</i>   | <i>Payment</i>  | <i>Monthly wage under the ceiling</i> | <i>Monthly wage above the ceiling</i> | <i>Leave must be taken</i>  | <i>Special requirements</i>   |
|---|---|---|---------------------------------------|---------------------------------------|-----------------------------|---|
| The Commerce Employers Association;<br>White-collar workers   | 1,2 or 3 months respectively if employed for 1,2 or at least 3 years respectively | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) Periods of at least 1 month |
| The Swedish Construction Federation, Association of Swedish Earth Moving Contractors, Sheet Metal Workers Employers' Organisation, Association of Heating, Water Sanitation and Cooling System Contractors;<br>White-collar workers | 3 months  | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | 90%                                   | –                           | Work for at least 3 months after leave                                      |
| The Swedish Construction Federation – Construction agreement;<br>Blue-collar workers <sup>2</sup>   | 1 or 2 months respectively if employed for 1 or at least 2 years respectively     | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | 10%                                   | –                           | 1) Only for female employees<br>2) Work for at least 3 months after leave   |
| The Swedish Construction Federation – Civil engineering agreement;<br>Blue-collar workers <sup>2</sup>  | 1 or 2 months respectively if employed for 1 or at least 2 years respectively     | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | 10%                                   | –                           | 1) Only for female employees<br>2) Work for at least 3 months after leave   |
| The Swedish Construction Federation – Agreement for Road and Railway;<br>Blue-collar workers <sup>2</sup>   | 1 or 2 months respectively if employed for 1 or at least 2 years respectively     | Half of the amount before leave, remaining part three months after return to work | 10%                                   | 10%                                   | –                           | 1) Only for female employees<br>2) Work for at least 3 months after leave   |
| Swedish Forest Industries' Association and Pulp and paper industry;<br>Work-collar workers  | 3 months  | Paid in connection with leave of absence  | 10%                                   | 90%                                   | Within 24 months from birth | At most 3 periods of leave per year   |
| Swedish Forest Industries' Association – Sawmill agreement;<br>White-collar workers   | 3 months  | Half of the amount before leave, remaining part three months after return to work | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) One period of leave         |
| Welding Engineering Employers;<br>White-collar workers  | 1,2 respectively 3 months if employed for 1,2 and at least 3 years respectively   | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | –                                     | –                           | Work for at least 3 months after leave                                      |
| Engineering Employers' Association;<br>White-collar workers   | 1 respectively 3 months if employed for 1, or at least 2 years respectively       | Half of the amount before leave, remaining part 3 months after return to work     | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) One period of leave         |

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| <i>Agreement</i>  | <i>Duration</i>   | <i>Payment</i>  | <i>Monthly wage under the ceiling</i> | <i>Monthly wage above the ceiling</i> | <i>Leave must be taken</i>  | <i>Special requirements</i>   |
|---|---|---|---------------------------------------|---------------------------------------|-----------------------------|---|
| Engineering Employers' Association;<br>Blue-collar workers (Metal)    | 1 respectively 3 months if employed for 1 or at least 2 years respectively    | Half of the amount before leave, remaining part 3 months after return to work | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) One period of leave |
| Textile and Clothing Industries' Association;<br>White-collar workers | 1 or 3 months respectively if employed for 1 or at least 2 years respectively | Half of the amount before leave, remaining part 3 months after return to work | 10%                                   | 90%                                   | Within 18 months from birth | 1) Work for at least 3 months after leave<br>2) One period of leave |

<sup>1</sup> The agreement applied until 31 March 2004.

<sup>2</sup> The agreement applied until 31 October 2005.

# Chapter 8 More than social insurance

## 8.1 Many types of benefit

There are many types of benefit in the event of a loss of earned income. Firstly, the benefit varies depending on the reason for the loss of earnings. Secondly, for each specific reason for the loss of earnings, there are usually several different supplementary forms of income benefit in addition to the benefit provided through the social insurance system. In this study we have presented and discussed the most important of these types of supplementary income benefit. We would like once again to emphasise that we are not covering all such forms of benefit. In particular we do not take up the supplementary benefit for which the individual is personally responsible through private insurance schemes or the supplementary benefit for which employers are responsible through individual agreements.

There is an interrelation between the social insurance schemes and the other forms of schemes for compensation for loss of earnings. Firstly, there is a historical connection. The types of benefit which may now be seen as supplementary, the occupational insurance schemes, were in many cases not supplementary when they were first introduced but rather the only forms of benefit. When the social insurance schemes appeared they were often designed with the existing benefit schemes as a model. The existing benefits generally became supplementary to the social insurance schemes and increased the compensation in different ways. There is also now an interaction between the social insurance schemes and the other forms of benefit. When the social insurance schemes are changed, the supplementary benefit schemes are often changed too. An obvious and recent example is the way that the transition from the ATP system to the new old-age pension scheme initiated changes in the agreement-based occupational pension schemes.

The types of benefit which an individual receives for loss of earnings generally come from several sources, decisions on them are made in different ways and they are also financed in different ways. Decisions on implementation and changes to social insurance schemes are made by the Swedish parliament, the Riksdag.

Decisions on agreement-based benefits are made by the social partners. Decisions on member insurance schemes are made by the trade union organisations, while decisions on purchasing individual insurance cover are made by the individual concerned. The financing varies according to which party makes the decision. The forms of benefit which come from social insurance schemes are financed through taxes or contributions. To a certain extent they are like insurance schemes where the contribution paid by the individual is related to the insurance cover received by that individual. This is most clearly seen in the new pension system even though this scheme also contains deviations from a pure insurance solution. The clearest examples of such deviations are the guarantee pension and the fact that a contribution is also charged above the income ceiling in the scheme. The agreement-based insurance schemes and the agreement-based benefits are financed directly by the employers but indirectly by the employees due to the fact that through their trade union organisations they relinquish part of the wage increase they should have been able to receive in the negotiations in order instead to receive protection against loss of earnings. The individuals themselves pay for member insurance schemes and wholly individual insurance schemes through their contributions.

The fact that the financing is different does not mean that the effects of different forms of benefit vary. For example, for a person who leaves the labour market with an old-age pension it is the total pension that is of importance for the consumption opportunities and not how the total pension is made up of pensions from the national pension system and from occupational and private pension insurance schemes. A corresponding discussion may be held for other areas. When we discuss the effects of benefit on income, labour supply, mobility etc. it is the whole system that is of interest, not just the social insurance system, even though it usually accounts for most of the benefit and the decisions taken within this system also in most cases determine the right to benefit in the supplementary schemes.

## 8.2 Effects of the supplementary benefits

When we discuss the effects of the supplementary benefits, it is important to remember how they are constructed. Basically we are looking at supplements from three points of view. Firstly, the supplementary benefits often provide some extra compensation for income parts below the ceiling in the social insurance schemes. This supplement is designed in different ways in different areas and in different benefit schemes. Secondly, the supplementary benefits often provide benefit above the ceiling in the social insurance schemes. This supplement is also designed in different ways for different schemes but often provides a benefit that makes the replacement rate the same or almost the same above the ceiling as below it. Thirdly, the supplementary benefits in some cases extend the period of benefit so that it is longer than in the social insurance system.

A characteristic feature of the Swedish social insurance system is the fact that the right to receive benefit does not depend on a person's workplace and the fact that the benefit is not affected by a change of employer (if the wage is the same) in such a way that it is an advantage to remain or to change jobs. The Swedish social insurance system is thus neutral to changes of workplace and does not hinder mobility. To a certain extent the supplementary benefits are also unaffected by a change of employer. The agreement-based benefits are the same within the large areas of agreement and the rights are not usually affected by a change of employer within an area of agreement. To a large extent this also applies where there is a change not only of employer but also in the area of agreement. The qualifying periods are generally short and it is possible, for example, to carry forward the balance in an agreement-based pension scheme when transferring to another scheme. There are, however, a number of obstacles to mobility (mobility costs) and also obstacles to combine different types of jobs which can hinder mobility. We shall return to this subject later.

As mentioned in the introduction to this chapter, the supplementary benefits determined via agreements are financed by the wage-earners relinquishing a part of the scope for wage increases in order to have a right to benefit in the event of, for instance, unemployment, sickness and old age, while the individuals pay membership fees and insurance premiums for member insurance and personal insurance schemes. It is therefore

the wage-earners themselves who in various ways finance the benefit, even though the decisions to establish and change the schemes are not taken by the individuals but by their trade union organisations either in negotiations or through the setting up of member insurance schemes. Despite this, the supplementary benefits can have similar economic effects as the social insurance schemes. We shall discuss some of the different economic effects and will begin with effects on income distribution.

### **8.2.1 Effects on income distribution**

The various supplementary benefit schemes mean that earnings are carried over from periods in work to periods without work. They mean, for example, that people relinquish pay in order to receive at a later date a higher pension than they would have received if the social insurance system alone had existed. If the supplementary benefit schemes are designed as insurance schemes with premiums independent of individual risks and people have different risks, which must reasonably be the case, the supplementary benefit schemes entail redistribution in the same way as the social insurance schemes do. One difference is that the redistribution takes place within the areas of agreement and not over the whole labour market. With individual risk-differentiated insurance schemes the same type of redistribution does not occur.

As has been mentioned, agreement-based benefits can be seen as a part of wage agreements where a part of the scope for wage increases has been allocated for agreement-based benefits or agreement-based insurance schemes. The part of the scope for wage increases that is allocated is often greater for wage parts above the ceiling than below it. This means that we have an incomplete and partly misleading picture of wage costs and gross wages when we do not include the employers' costs for the agreement commitments or alternatively the value of these commitments for the individuals. It also probably means that the economic returns to education are underestimated if consideration is not given to the supplementary benefits.

### 8.2.2 Effects on labour supply and hours worked

One of the most widely discussed issues is the effects of social insurance on labour supply and number of hours worked in the economy. As mentioned previously, there is reason to assume that agreement-based benefits and other benefits have similar effects as the social insurance schemes.

The occurrence of income benefit for loss of earned income can on the one hand be an incentive for people to job search and therefore to join the labour force. The income benefit means that the expected benefit from having a job becomes greater in the same way as a higher wage does. The introduction or improvement of agreement-based benefits can, as with a wage increase, make more people to enter or remain in the labour market.

The agreement-based benefits can, on the other hand, in exactly the same way as the social insurance schemes, give people who are employed and are covered by the benefit systems an incentive to leave the labour market or not be in work for shorter or longer periods of time.

The age at which people leave the labour market to take their old-age pensions is affected by the design of the old-age pension system. The answer to the question of what kind of a pension a person receives at, for example, 61, 65 and 67 can affect the age at which the individual decides to retire. Here it is not just a question of what information is given in the orange envelope (annual pension statement) about the pension from the social insurance system but also, provided that the individual is informed, how great the agreement-based occupational pension is and how it varies depending on the age at which it is taken. We can expect the retirement age to be affected partly by the pension level the person receives (the higher the pension, the earlier it will be taken everything else equal), and partly by how the pension varies according to the age at which it is taken.

The development of the sickness rate has been a focal point of the debate in recent years. Among the factors that have been specially noted are the benefit from health insurance and the disability pension system. If the benefit from these systems has an effect, it is reasonable to assume that the agreement-based benefits in the same areas also have an effect, i.e. that it is the total level of benefit that is of importance. There is no reason to believe that

agreement-based benefits should have other types of effects than the benefits from the social insurance system.

Similarly, there is a discussion about the effects of unemployment insurance upon unemployment; about how it affects the flow into unemployment and especially duration of the unemployment spells. Higher benefit and longer periods of benefit can reduce the intensity of job search and increase the demands that a job seeker places upon a job before being willing to take it. If we have effects of this kind, it is also reasonable here to assume that it is the total benefit (not just the benefit from the unemployment benefit fund) and the total benefit period (not just the period covered by the unemployment benefit fund) that is important.

### **8.2.3 Effects on mobility on the labour market**

The Swedish social insurance system is structured in such a way as to ensure that entitlement to benefit is preserved when changing jobs. Rights that are accumulated at one job are therefore transferred to the next. The period of employment with the most recent employer has no significance in terms of the possibilities for receiving benefit from the social insurance system. In general this also applies to agreement-based insurance schemes and agreement-based benefits. The period of employment with the most recent employer is of no importance in terms of the benefit. There are, however, some exceptions.

One exception is within the supplementary parental leave benefit schemes. To receive benefit it is necessary in most agreements within the private sector to have had at least one year's employment with the most recent employer. The size of the benefit also varies in a number of agreements according to the period of employment with the present employer. The longer the period of employment, the longer usually is the period of supplementary benefit. It is often also necessary for the employee to return after taking parental leave and work for a specific period of time at his/her old workplace in order to receive the entire supplementary benefit allowed for parental leave. The rules described here give incentives for avoiding a change of employer for those who plan within the next few years to have children. One explanation as to why the supplementary benefits are designed in the way described here is that they are relatively recent and



therefore appeared during a period where agreements were made at the level of the individual trade union rather than centrally. Uniform agreement-based insurance schemes are easier to arrange through central negotiations.

Another example is agreement-based pensions. In this area the earned pension rights are generally possible to transfer for those moving. Since the benefit above the ceiling is an important part in several of these systems and the benefit above the ceiling does not depend on wage parts above the ceiling throughout all years but only during the years immediately before the pension starts, this means that the pension costs can be high for the employer if they employ older people for positions with a positive wage development late in their career. Another problem is that the pension for wage parts above the ceiling does not depend on the total wage but only on the part of the total wage that is above the ceiling within a specified agreement area. Half-time work within a sector combined with half-time work within another sector can lead to a considerably lower pension than full-time work within one sector even if the total annual salary would be exactly the same in the two cases. This gives an incentive to avoid combining jobs, solutions which in some cases might be good for other reasons. Similar effects with combinations of other types of job may occur with other agreement-based benefits.

In cases where the benefit is based on the current income (or incomes during the year immediately prior to the loss of work-related earnings) this also means that there is an incentive for the individual to avoid changing to a job with a lower wage (quite apart from the lower wage). It can, for example, mean that people who for health reasons would have otherwise scaled down their level of work by taking on less demanding jobs now remain and therefore perhaps also need to leave the labour market earlier than in other cases.

#### **8.2.4 Effects on industrial restructuring**

Swedish labour legislation provides protection for those in employment. They cannot be given notice without just cause and those who have highest seniority have the best protection. These regulations involve costs for employers who wish to restructure their business. When they wish to downsize their operation or

perhaps steer it in a new direction, they often wish to deviate from the order of priority provided for in the Security of Employment Act (LAS). In order to reach an agreement with the trade union organisations on deviating from the order of priority, the employer must generally offer economic compensation to people who are given notice. Part of this benefit can be given in accordance with collective commitments via different job security agreements, for example severance grants. Such benefit can make it less costly for the individual employer to restructure (if not for the employers as a group since these measures are financed by employer contributions). Nor can one exclude the fact that the Swedish regulatory system with its well-known benefit levels combined with agreement-based severance benefits facilitates the negotiations over changes to a business operation and thus also leads to lower costs. These lower costs can in turn mean that restructuring is faster in Sweden than in countries where the validity of and benefit for the giving of notice are often determined through negotiation in court proceedings.

### **8.3 Variations in benefit levels and financing**

We looked in Chapters 2–7 at the benefit provided for different types of loss of earnings and compared benefits in different areas of agreement according to the various reasons for the loss of earnings – old-age pension, unemployment, illness etc. We shall now briefly compare benefit and financing with different types of loss of earnings. As shown in the presentation of the different schemes, the level of benefit varies considerably between different types of loss of earnings and there are sizeable differences in terms of how different supplementary benefits are financed. These variations and differences can have economic effects. We are not going to give a full comparison here but will highlight two issues: differences in the level of benefit in different types of loss of earnings and any effects of the type of financing involved.

### 8.3.1 Different levels with different types of loss of earnings

The social insurance schemes do not offer the same benefit for different types of loss of earnings. The highest benefit is for work accidents. It is generally higher for people who are on sick leave and for those with disability pension than for those who are unemployed and higher for those on sick leave than for those with a disability pension. The differences consist partly of different levels of benefit and partly of different income ceilings in the benefit schemes. The exact ranking in terms of benefit varies from case to case since the benefits are not always based on the same income definition. Differences in benefit levels can lead to different types of effect. Such differences give, for example, the individual an incentive to prefer to receive benefit from one scheme rather than another.

The fact that benefit is higher for work accidents than for other forms of loss of earnings is justified by the fact that it is not reasonable for the person who suffers injury caused by problems in the work-place to be personally responsible for any part of the loss of earnings. It is harder to determine why the benefit levels for other types of loss of earnings differ. The explanation might perhaps be sought more in the circumstances surrounding the various decisions on benefit schemes than in conscious choices.

The question is therefore whether the agreement-based benefits affect an order of precedence made according to how great a part of the income is awarded benefit. They do so in certain areas. This is most clearly seen when comparing the sickness benefit with that given for disability. Within the social insurance scheme sickness benefit generally gives higher benefit. The differences will, however, be small when the various benefit types are added up, and a disability pension may for some people give greater compensation than sickness benefit. The differences between sickness benefit and unemployment benefit also even out for certain groups (especially those who are employed within the public sector). However, the differences are strengthened between the benefit for occupational injury and other types of benefit when agreement-based benefit is included. It is clearly more advantageous from a financial point of view for the individual if a specific reduction in a work capacity is deemed to be the result of occupational injury than some other cause.

Questions may be raised both with regard to the differences that exist in benefit levels between different parts of the social insurance system and the differences generated by the system as a whole. Differences of this type place increased demands on those whose job it is to check that people end up in the right scheme (“door-keepers”) and can lead to injustices between those who understand the differences and act accordingly and those who do not.

### **8.3.2 Agreement-based benefit or agreement-based insurance?**

The financing varies between the different types of benefit. In some cases the employer pays the entire benefit in the various concrete cases; in other cases the benefit is paid from an insurance scheme into which the employer (and/or employee) has paid premiums and where the premium does not depend on the number of cases that the employer has (no “experience rating”). The first model gives the employer powerful incentives to avoid cases occurring for which benefit is payable – the employer is after all responsible for the benefit. In the second instance the economic incentives are not as strong – an extra case does not affect the premium that the employer pays.

Taking into account the effects on incentives, the level of employer participation should be greatest where there are reasons for trying to influence the employers’ behaviour, but there should be little or no participation where there is no wish to influence employers’ behaviour. There are, for example, reasons for having a high level of employer participation in cases of supplementary benefits for occupational injury in order to increase the incentive for employers to take measures to prevent accidents at work. There are, however, no corresponding arguments for employer participation in cases involving supplementary benefits for parental leave, i.e. there are no arguments for having schemes that give employers economic incentives to obstruct people from having children or to avoid employing people who might be expected to take parental leave, i.e. most particularly to avoid appointing young women.

So what does this look like in practice? There is no employer participation in the agreement-based benefits connected with occupational injury, but each employer is entirely responsible for the benefit relating to supplementary parental benefit. This goes against the analysis presented above and cannot be explained by saying that it is wished to give the employee full benefit for loss of earnings caused by an accident at work. It should be possible to solve this problem by supplementary insurance that guarantee that benefit is also paid in cases where the employer is unable to pay the promised benefit (for example, in cases of bankruptcy).

## **8.4 Groups outside the supplementary schemes**

The Swedish social insurance system combines basic security with income-related benefits. Few people are not covered by the safety net of social insurance. The same applies to the supplementary agreement-based benefit schemes. A small number of agreements – usually four large ones and a few small ones – cover large parts of the labour market. Most employees are entitled to supplementary benefits. Not all, however, are covered by these agreement-based benefits. In some cases this is because the benefits do not cover all those people who in other respects are affected by the agreements which the social partners have entered into. This applies most of all to those below the age limit specified in the agreements, for example the supplementary benefits relating to the giving of notice. To a certain extent this also applies to those who have short part-time work. Here the limits used to be much more restrictive, but there are still working hours limits in some agreements. More important is that certain groups are not covered by the benefit schemes as decided upon in collective agreements.

### **8.4.1 Outside the organisations**

Most wage-earners in the Swedish labour market are members of trade unions or work for companies which have collective agreements. They are therefore covered by agreement-based, supplementary benefits. Not all, however, belong to trade unions or have an employer who is a member of an employer association or who in some other way has arranged supplementary benefits. To

a certain extent these can be people with a strong position on the labour market, but the majority probably consist of groups with a weak position. It is important to chart the size and composition of this group without supplementary protection, not least with a view to discussing a possible expanded role for the agreement-based benefits.

#### **8.4.2 Self-employed people**

Another group not covered by collective agreements is the self-employed. This is a very heterogeneous group. It includes many who have a job alongside their self-employed activity and who are covered to the extent of that job. It also includes self-employed people who personally or through the agency of an organisation to which they belong (for example, *Företagarna*) complement the insurance schemes they have via the social insurance system.

The self-employed are not, however, a uniform group. The differences in income are very great in this group and many self-employed people have low incomes and an unstable situation. Immigrants who have arrived as refugees, for example, are over-represented among the self-employed. It is a group with a weak position on the Swedish labour market and many of the immigrants who are self-employed have low incomes. Many self-employed people are unorganised and many therefore are probably also poorly covered by supplementary insurance schemes.

### **8.5 Information problems**

#### **8.5.1 Information and incentive**

The Swedish social insurance system is well known among the general public if not in every detail. This knowledge is helped and promoted by the fact that the system is universal, information is regularly sent out from the authorities involved and it receives widespread media attention. There is not the same knowledge of the supplementary benefits and the knowledge is generally partial in the sense that it is mostly knowledge of the benefits according to the collective agreements by which the individual is covered and not of benefits according to other collective agreements, agreements by which this person would be covered in the event of

a change of job. This means that many probably make decisions based on incomplete information, which can mean that a number of people make decisions other than the ones they would have made had they had better information. What kind of mistakes, then, can people make as a result of incomplete information?

One possible problem is that people over-insure themselves. For example: if individuals know what they will receive in their old-age pension from the social insurance system but not what they will receive from the agreement-based pension scheme, they can underestimate the total pension they will receive. This can lead them to take out more private pension insurance than they would otherwise have done. In this way they receive a non-optimal distribution of their consumption over their life cycle. If they find out the total amount they will receive in their pension as they approach retirement age, "over-insurance" can lead them to stop work and draw their pension earlier than they otherwise would have done. Over-insurance can also occur in other areas.

Another problem is where people who are not aware of qualifying periods in different systems change jobs when they would not have done so had they had better information on the benefits schemes.

A third problem is where people make combinations of different jobs leading to a lower level of benefit protection in the supplementary benefits schemes, which they would not have done had they had knowledge of the schemes.

Is lack of information about the agreement-based benefits a problem? In the discussions we have had at various seminars, some have suggested that it is actually an advantage since it can stop people being influenced in an unintentional way by the benefit, i.e. the incentive not to be in work is not as strong as when one possesses full information. There are certain objections against this viewpoint. It is probably true that some people have far better information of the different benefit schemes than others. Those who possess this superior information have an advantage compared with those who do not. The lack of information is probably also partial in a systematic way. The lack of knowledge of which type of benefit is payable is probably most evident before a person receives benefit, but less likely after the person has been receiving benefit for some time. The lack of information will probably therefore mostly affect the inflow of persons to a benefit scheme (they will

be fewer) rather than the time people remain in that benefit scheme.

### **8.5.2 Information and research**

It is not only the public who have inadequate information about the various agreement-based benefits and other supplementary benefits. Politicians and researchers also lack knowledge of the agreement-based benefits and how they have been changed and are changing. One problem within the research is that studies of the social insurance schemes are made without consideration being given to the fact that supplementary benefits exist. This can, in a certain sense, be considered the same as carrying out studies of the effects of municipal income tax without taking into account the fact that state income tax also exists. If it is the total benefit that is of importance for behaviour and not only the benefits from the social insurance system, information of the total system is needed. One reason for this failure to take into account the supplementary benefits within the research is that the systems are complicated, they vary between different areas of agreement and there is no available documentation to show what they look like at a specific point in time or how they have changed over time. It is important to have such information of the different benefit schemes.

### **8.5.3 Information systems**

As we can see from the above, better information of the supplementary benefits is needed. Both the public and the researchers in this area need better information.

1. For the public there needs to be a general presentation of the different supplementary benefits which, for obvious reasons, cannot be complete. There also needs to be an opportunity to access information easily on the internet about the benefits that are applicable and how this protection would alter for example in the event of a change of workplace from one sector to another. A person should be able to go in and see what the overall insurance cover is like in different cases (for example in the current job and in a job to which the person is considering changing).



2. The researchers need detailed documentation of the regulatory systems and their changes over time. Each researcher can carry out a compilation of this kind but it leads to duplication of effort and probably also to fewer people noticing the existence of this kind of benefit scheme.
3. It is important both for research and for commissions of inquiry that information on these supplementary benefits is included in the official statistics, especially in the wage statistics. This would make it possible to see how extensive these benefits are and also to study which are the main groups receiving them.

## **8.6 Supplementary benefits and economic policy**

As we have mentioned in different parts of this study, it is not the state that makes decisions through government and the Riksdag on supplementary benefits. The parties concluding the agreement decide on agreement-based benefits, the trade unions on member insurance schemes, and the individuals themselves on whether to take out private insurance cover or group insurance (insurance companies and trade union organisations offer the individuals the chance to take out supplementary insurance cover). The state does, however, influence in different ways the space for and the scale of the supplementary benefits. We shall now list some of the most important channels for state influence both in Sweden and abroad.

1. Firstly, the state influences supplementary benefits through the establishment and structure of the available social insurance. If the social insurance system is changed, the supplementary benefits are also often changed. For example, should the ceiling be raised within one or more of the social insurance schemes, this would affect the supplementary agreement-based schemes. Benefit above the ceiling represents a large part of the expenditure for many of the agreement-based benefits.
2. Secondly, the state can influence the scale of the supplementary benefits through the structure of the tax system. Charges for agreement-based benefits, insurance premiums and benefits from agreement-based benefits have received different tax treatment on different occasions and there are variations between countries.

3. Thirdly, the state can influence agreement-based benefits through direct regulation, for example in the form of a ceiling showing how large the supplementary elements may be without reducing the benefits from the social insurance schemes. One example is the regulations that were introduced for sickness benefit in Sweden at the start of the 1990s.
4. A fourth method, which has not been used in Sweden, is where collective agreements, including those involving agreement-based benefits entered for a specific segment of the labour market, are expanded by legislation to apply to other parts of the sector involved or to the whole labour market.
5. A fifth method, also not used in Sweden, is to legislate for agreement-based insurance schemes to be established (and more or less detailed with regard to their terms and conditions).

## **8.7 Need for research into supplementary benefits**

As we have seen from this report, very little research is being carried out into the benefits supplementary to the social insurance schemes. We have argued that these schemes are important elements in our welfare state and have important economic implications and therefore also that research in this area is important. We will highlight some important topics below.

1. Knowledge of the growth of supplementary benefits is important for understanding how the systems work and what drives changes over time. Knowledge of this kind is also important for a better general understanding of how the Swedish labour market operates, especially the agreement negotiations.
2. It is important to compare more systematically the benefits with different types of loss of earnings and between different agreement areas. This then creates a foundation for the study of the effects of the different systems on labour supply etc.
3. It is interesting to study which people are covered by the benefits, which people receive benefit from the different schemes and the size of the amounts.

4. Not all people are covered by the supplementary benefits schemes. It is important to study which people are outside the schemes.
5. It is important to study the effects that the supplementary benefit schemes have on labour supply (labour force participation, hours of work, absence, age on retiring from work etc.), mobility and income distribution. From the point of view of research, it is an advantage that the agreement-based benefits vary between different areas of agreement and over time. This facilitates the study of the effects of variations in the replacement rate on labour supply, unemployment and absence from work.

