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## Social and occupational security and labour market flexibility in Sweden: the case of unemployment compensation

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July 2007

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## ABSTRACT

### **Social and Occupational Security and Labour Market Flexibility in Sweden: The Case of Unemployment Compensation**

The Swedish labour market and social policy is aimed at facilitating flexibility in the labour market. The active labour market policy and the design of the social security pension system are two frequently mentioned examples of that policy. This does not necessarily mean that all policy programs are in accordance with the goal of enhancing flexibility. In this paper we analyze one part of the social and occupational (collectively bargained) security system – the compensation at unemployment with special emphasis on the schemes complementing compensation from the unemployment insurance scheme. We focus on the effects of those systems on labour market flexibility. Some parts of these complementing systems support mobility and return to work after layoffs, other parts of the systems may lead to that workers avoid job mobility and to prolonged periods of unemployment. Of special interest is that those complementing systems differ between different sectors of the labour market and that many, especially young people, are not covered.

JEL Classification: J65, J64, J32

Keywords: unemployment, unemployment insurance, occupational insurance, severance pay

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# **Social and Occupational Security and Labour Market Flexibility in Sweden: The Case of Unemployment Compensation<sup>1</sup>**

Gabriella Sjögren Lindquist and Eskil Wadensjö

## **1. Compensation at unemployment**

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.

Income compensation at unemployment is generally organized by the state or by state support to trade unemployment insurance schemes (the Ghent system). There are few instances in this area of insurance policies arranged by insurance companies without a link to an organisation. One explanation for this pattern 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.

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 offices or otherwise have good opportunities to determine the ability 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. For unemployment large variations occur. There are many expensive insurance claims in downturns, which can result in insurance companies being unable to fulfil their obligations.

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<sup>1</sup> This paper builds on Sjögren Lindquist and Wadensjö (2006) which contains a much more detailed presentation of the different programs. In Sjögren Lindquist and Wadensjö (2007) we present in more detail the complementing insurance schemes and also estimations of how many they cover. We want to thank ESS at the Ministry of Finance for support to the project and participants at the ISSA conference in Warsaw in March 2007 for helpful comments.

Due to the problems associated with unemployment insurance, public solutions 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>2</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 include excesses. 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 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. This is also the case for Sweden. The total level of compensation therefore often differs to 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.

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>3</sup> The aim is that a person who loses their 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

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<sup>2</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).

<sup>3</sup> See Jans (2002) for a review of the provisions.

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>4</sup>

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), a lump sum benefit is paid in the event of notice due to shortage of work in the form of severance pay (AGB) from an insurance.
2. According to an agreement between the Confederation of Swedish Enterprise and the Council for Negotiation and Co-operation (PTK), 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 that supplements the unemployment insurance in the form of severance pay (AGE) to the persons who are given notice.
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 70 to 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 70 to 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.

In addition to the benefits determined by law or by agreement between employer organisations and trade union organisations, there is also insurance coverage arranged by

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<sup>4</sup> See SFS 1992:497 and Danhard (2004).

trade union organisations. There are two types – collective insurance that covers all members of a trade union and individual insurance coverage that can be taken out individually either through a group insurance or directly from the insurance company.

1. A number of unions have collective insurance coverage for their members. In common for the supplementary insurance coverage 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. The duration of the period of benefit varies. Individual supplementary insurance policies can be taken out in some cases covering additional days.
2. Some unions offer individual income insurance coverage. The members of these organisations can take out insurance which provides additional coverage to unemployment insurance for income over the ceiling. The benefit period is 280 or 300 days.
3. Those who belong to an unemployment insurance society but not necessarily to a trade union can take out individual income insurance with the insurance company Accept.

We will now describe the public unemployment insurance scheme and review the different agreement-based schemes and the supplementary insurance schemes set up by various trade union organisations.

## **2. The development of unemployment benefit insurance<sup>5</sup>**

The first unemployment insurances were founded at the end of the nineteenth century, providing assistance to unemployed members. The benefit provided by these insurances was low as a rule and many unemployment insurance associations had problems in periods of depression in the inter-war period. 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>6</sup> The unemployment insurance was to be voluntary.

In 1974, the legislation for the unemployment insurance was greatly changed. The daily benefit was made taxable and conferred pension rights. Cash Labour Market Assistance (KAS) was granted to those who did not have unemployment insurance, to members who had

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<sup>5</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>6</sup> See Edebalk (1990) on the development of unemployment insurance in the first two decades.



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).

From 1 January 1998, the 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.

### **3. Unemployment benefit in 2007<sup>7</sup>**

The Swedish unemployment insurance consists of two components, a general basic insurance (the base amount) and a loss of income insurance (income-related benefit). None of the two components in the unemployment insurance are means-tested. The base amount is available to a person who is not a member of an unemployment fund, or has not been a member for a sufficiently long period to comply with the membership condition (which entails having been a member of a fund for at least a year without interruption). The applicant is also required to fulfil the basic condition and the work 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 80 hours per month for at least six months or 480 hours during six uninterrupted calendar months and at least 50 hours in each of these months. Periods of time on parental benefit or being conscripted can be counted as work for at most two calendar months. Employment on a wage grant, sheltered work at a public employer, periods of time with severance pay and employment with employment support may be counted towards the work condition.

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<sup>7</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)), Sjögren Lindquist and Wadensjö, 2006, and Sjögren Lindquist and Wadensjö, 2007.

Benefit according to the basic insurance is SEK 320 (USD 46)<sup>8</sup> gross per benefit day for a person who worked full-time regardless of previous income. 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) with an exception for parents to children under 18 years who can receive benefits for 450 days. Before benefit is paid, a five-day qualifying period must have elapsed.

To obtain income-related unemployment insurance, the membership, and the basic and work conditions described above must be fulfilled. The income-related insurance is paid for a maximum of 300 days (450 days for parents) at most five days a week with a waiting period of five days. The income-related insurance is paid at 80 per cent of the previous daily income during the 200 first benefit days up to a ceiling of SEK 850 (USD 121) gross per day. This corresponds to a maximum daily gross amount of SEK 680 (USD 97). During the following 100 days (250 days for parents) the insurance is paid at 70 per cent of the previous daily wage. The maximum benefit is still SEK 680 (USD 97) gross per day. The daily income is equivalent to 1/22 of the monthly wage.

If an unemployed person refuses a job referral without a good reason, the insurance compensation can be cut down in steps, the first time with 25 percent for 40 days, the second time with 50 percent for 40 days and discontinued the third time.

There are 36 independent unemployment funds with over 3.5 million members (June, 2007). The Swedish labour force between 16 and 64 years amounts to 4.6 million individuals. About 1.3 million in the same age group are not in the labour force. The unemployment funds decide on and pay unemployment insurance. The employment offices provide information to jobseekers and check that they comply with the conditions for receiving unemployment insurance, i.e. that they are actively looking for work and accept offers for suitable work or a place in a labour market programme. There are 300 employment offices organised by 20 County Labour Boards with the National Labour Market Board, AMS, as responsible authority. The present government has decided to re-organise the National Labour Market Administration. To create efficiency, flexibility and a less costly organisation and to protect the legal rights of the individual, AMS as well as the 20 County Labour Boards will be closed down and one new authority will be established. Until 2003, AMS was also responsible for supervision of the unemployment funds. From 2004, this role was taken over by the Swedish Unemployment Insurance Board, IAF.

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<sup>8</sup> SEK 1 ≈ USD 7, June 2007.

The unemployment insurance is financed mainly by the state budget, but also by the unemployment funds. Employers pay a “labour market fee” to the state. In 2005, this tax covered 87 percent of the costs for the unemployment insurance, and membership fees to the unemployment funds covered 13 percent of the costs.

During 2006, 479,285 individuals received income-related unemployment insurance and 85,518 received the base amount. This corresponds to 10.5 and 1.9 percent, respectively, of the workforce. 15.5 percent of those who received unemployment insurance received the base amount.

### **3.1 Unemployment insurance and the new government**

Sweden got a new right-wing coalition government in September 2006. In the election campaign, strengthened work incentives were one of the main subjects. Since the right-wing coalition went into power, they have presented and introduced some new unemployment policies. Changes in the unemployment benefit insurance are presented below.

Before January 1, 2007, the ceiling in the unemployment insurance was a daily maximum gross benefit of SEK 730 (USD 104) during the first 200 days and SEK 680 (USD 97) the following 100 days. From January 1, 2007, the ceiling was cut from SEK 730 (USD 104) to SEK 680 (USD 97) during the first 200 unemployment days to remain on this level during the whole unemployment benefit period. More than 75 percent of all employees reach the ceiling in the unemployment insurance.

The compensation level was also lowered by the new government. Before January 1, 2007, the compensation level was 80 percent during the whole benefit period but is in the new scheme lowered to 70 percent after 200 benefit days. The intention is to stimulate labour supply.

At the same time as the benefits from the unemployment insurance have become less favourable for those who become unemployed, the insurance has also become more expensive for the individual. From January 1, 2007, the unemployment funds have to cover more of the costs for the unemployment insurance and thereby have to increase the fees. This new amount is called the enhanced fee and is added to the earlier basic fee. The enhanced fee is related to the benefits paid out but will not be higher than SEK 300 (USD 43) per month. In 2007 the monthly fee (basic + enhanced) varies between SEK 240 and SEK 415 for those who are employed. Unemployed members pay only the basic fee, which in most cases corresponds to

approximately one third of the fee for non-unemployed. The increase of fees means that the share of the expenses of the funds covered the member fees increased from 12 per cent in 2006 to predicted 45 per cent in 2007. See IAF (2007).

This increase in member fees has led to a loss of members from the unemployment funds. Between January 1, 2007, and May 31, 2007, 242,000 members left the unemployment funds corresponding to 6 percent of their members.<sup>9</sup> The rate of decline varies between the funds from 2 to 22 per cent.<sup>10</sup> Besides that members leave the fund, the loss of members for a fund may also be due to that people newly employed do not join a fund and that people leave a fund with a high fee for one with a lower fee.

As a response to the large drop out from the unemployment funds, the labour market minister has announced that the government intends to make membership in an unemployment fund mandatory. An expert investigation was appointed June 29, 2007. It will study how to make the unemployment insurance mandatory. The government's aim is to make the unemployment insurance mandatory from July 1, 2009.

Before January 1, 2007, students could qualify for unemployment benefit if they fulfilled a student condition. According to the student condition, studies were 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 was paid in accordance with the basic insurance if the student condition was met (together with the basic condition). The student condition was abolished January 1, 2007.

To fulfil the working condition before January 1, 2007, the unemployed had to work 70 hours per month for at least six months. After this date, the unemployed has to work 80 hours per month to fulfil the working condition.

On March 22, 2007, the government presented a new proposition (Proposition 2006/07:89) on how to reform the labour market policy. The parliament approved the proposition which involved changes from July 2, 2007. Before this date, there was a possibility of being granted a second period of unemployment insurance and the unemployment fund was to decide on an extended benefit period only for those who risked expiry of their insurance period and where the employment office had notified the unemployment fund that they did not plan to refer the jobseeker to a labour market programme. From January 1, 2007, the new government lowered the compensation level from 80 percent to 65 percent for the extended benefit period. The

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<sup>9</sup> The number of members started to decline already in late 2006 after that the Government had announced the change. See IAF (2007).

<sup>10</sup> See IAF (2007) for details.

possibility of being granted a second period of unemployment insurance was then abolished from July 2, 2007, and from the same date the unemployment insurance will only be paid for 300 days (if the unemployed has children below 18 years, the period consists of 450 days).

Before July 2, 2007, the unemployed only had to search for jobs within his profession and in the area where he lived during the first 100 days. After this date, the unemployed has to search for jobs all over Sweden and in all professions to be eligible for unemployment benefits.

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

The unemployment insurance from the unemployment funds is not the only benefit that can be received when unemployed; there are different supplementary benefits in the event of unemployment. Here we are going to concentrate on those that provide benefit after a person has become unemployed.<sup>11</sup> There are three basic types of solutions: agreements between trade unions and employer organisations, member insurance coverage (all 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 coverage 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 union organisations, they cover everyone within the sphere of the agreement, not just trade union members. We will present the four main agreements that together cover 75 percent of all employees in the labour market below.

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<sup>11</sup> A related form of policy is fixed periods of notification for layoffs determined by law. These periods are for many prolonged through collective agreements. See Danhard (2004) and Jans (2002).

#### **4.1 The central government sector – The employee security agreement (240,000 employees are associated with the Job Foundation - Trygghetsstiftelsen)**

The Employee 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. Almost 92 percent of the employees fulfil this requirement. 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 that become unemployed due to their appointment not being renewed due to lack of work also receive severance pay.

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 benefit makes up 80 per cent of the wage during the first 200 days and 70 percent the following 100 days. This means that severance pay is not paid for the unemployed person who had a wage below the ceiling for the unemployment insurance benefit. 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 during the first 200 days of unemployment and 70 percent during the following 100 days 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 Foundation decides on and pays extended severance pay. The extended severance pay is paid a maximum of five years since employment ceased or 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 reached the age of 60 at the time of being given notice<sup>12</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. Approximately 4 percent of the employees in the government sector qualify for the pension benefit. An employee who has not been given notice can 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. The employer meets the whole cost of the pension benefit.

**Table 1 Benefit per month in the case of unemployment in accordance with the unemployment insurance and the central government Employee Security Agreement (amounts in SEK, SEK 1 ≈ USD 7, June 2007)**

<i>Monthly wage</i>	<i>15,000</i>	<i>30,000</i>	<i>50,000</i>
Income-related benefit from the unemployment insurance per month	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days
Severance pay per month	0	9,040 for 200 days 6,040 for 100 days	25,040 for 200 days 20,040 for 100 days
Total	12,000 for 300 days 10,500 for 100 days	24,000 for 200 days 21,000 for 100 days	40,000 for 200 days 35,000 for 100 days

#### **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 of the AGF-KL agreement. Notice has therefore been given to terminate the agreement although it has been temporarily extended. The severance pay consists partly of a lump sum benefit and partly of a periodic severance pay.

<sup>12</sup> The age limit is 61 from 2008.

AGF-KL is not 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 compulsory retirement. Approximately 72 percent of the employees reach these requirements. 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>13</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; the minimum age is 45 and the period required for 45 year olds is 17 years. The requirement for the period of employment is reduced with increased age. The period of employment need not be continuous but that it is the total period of employment within the sector that counts. 40 percent in the sector qualify for the periodic severance pay. An employee cannot receive both periodic and lump sum benefits. 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.

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 during the first 200 days and 70 percent during the following 100 days (250 days for parents). 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.

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<sup>13</sup> For childminders, the lump sum benefit is instead based on an average of the twelve most recent monthly wages.



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 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.

**Table 2 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, SEK 1 ≈ USD 7, June 2007)**

<i>Monthly wage</i>	<i>15,000</i>	<i>30,000</i>	<i>50,000</i>
Earnings-related benefit from the unemployment insurance per month	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days
Severance pay per month during the period with benefit from the unemployment insurance	0	9,040 for 200 days 6,040 for 100 days	25,040 for 200 days 20,040 for 100 days
Severance pay per month when the period with benefit from the unemployment insurance is finished	approx. 70 % <sup>a</sup> of the wage as long as the unemployed is available for work	approx. 60 % <sup>a</sup> of the wage as long as the unemployed is available for work	approx. 50 % <sup>a</sup> of the wage as long as the unemployed is available for work
Total	12,000 for 300 days 10,500 for 100 days thereafter approx. 70 % of the wage as long as the unemployed is available for work (10,500)	24,000 for 200 days 21,000 for 100 days thereafter approx. 60 % of the wage as long as the unemployed is available for work (18,000)	40,000 for 200 days 35,000 for 100 days thereafter approx. 50 % of the wage as long as the unemployed is available for work (25,000)

<sup>a</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.

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 national 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.

#### **4.3 Blue-collar workers in the private sector – AGB<sup>14</sup> (900,000 employees are covered by the Employee Security Fund, TSL)**

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>15</sup> The rules have been changed on different occasions.

The Confederation of Swedish Enterprise and LO 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. At least 40 percent of the employees in this sphere of agreement qualify for the benefit.

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 3. AGB is also related to the extent of employment. An employee who is

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<sup>14</sup> See Edebalk and Wadensjö (1980, 1989) for the earlier development of the AGB insurance.

<sup>15</sup> Initially it came into existence as an agreement in 1964.

made redundant from employment corresponding to 40 per cent of a full-time job will receive 40 per cent of the AGB amount.

**Table 3 AGB benefit in 2007 (amounts in SEK, SEK 1 ≈ USD 7, June 2007)**

<i>Age</i>	<i>Benefit amount</i>
40–49	26,000
50–59	27,100 + 1,100 in supplement for each year of life
60–64	38,100

AGB is paid by the Employee Security Fund TSL to blue-collar workers who have been given notice due to shortage of work and who are working in companies that 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 that are linked by agreement to TSL.

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

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 Employee Security Council, TRR, 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.

The 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 together with the public income-related unemployment benefit 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 parts of wages under 20 price base amounts and 25 per cent for parts of wages over 20 price base amounts during the first six months. Thereafter, the benefit is 50 per cent for parts of wage below 20 price base amounts and 25 per cent on parts of wage above 20 price base amounts. As before, benefits for those who do not have benefits from unemployment insurance are based on what the employee would have received if he had had such benefits. The benefit

periods are shown in Table 4. 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.

**Table 4 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 <sup>a</sup>	60–64 years

<sup>a</sup> The unemployment benefit period is 300 days. If the unemployed still has not got a job after 300 days, he can be placed in a labour market program and receive activity support of 65 percent of earlier wages up to a ceiling of SEK 18,700 (USD 2,671) per month for as long as he participates in the program. If the unemployed receive activity support, AGE is paid.

To be entitled to AGE, it is required that the employee must have lost his job by being given notice due to shortage of work, have reached 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. Approximately 50 percent of the employees in this sector qualify for the agreement-based insurance.

**Table 5 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, SEK 1 ≈ USD 7, June 2007)**

<i>Monthly wage</i>	<i>15,000</i>	<i>30,000</i>	<i>50,000</i>
Earnings-related benefit from the unemployment insurance per month	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days
<b>AGE per month</b>			
<40	0	0	0
40–44	0	6,040 for 130 days <sup>a</sup>	20,040 for 130 days <sup>a</sup>
45–59	0	6,040 for 130 days 40 for 130 days	20,040 for 130 days 10,040 for 130 days
60–64	0	6,040 for 130 days 40 for 170 days <sup>b</sup>	20,040 for 130 days 10,040 for 170 days <sup>b</sup>
<b>Total</b>			
<40	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days
40–44	12,000 for 200 days 10,500 for 100 days	21,000 for 130 days 14,960 for 170 days	35,000 for 130 days 14,960 for 170 days
45–59	12,000 for 200 days 10,500 for 100 days	21,000 for 130 days 15,000 for 130 days 14,960 for 40 days	35,000 for 130 days 25,000 for 130 days 14,960 for 40 days
60–64	12,000 for 200 days 10,500 for 100 days	21,000 for 130 days 15,000 for 170 days <sup>b</sup>	35,000 for 130 days 25,000 for 170 days <sup>b</sup>

<sup>a</sup>The benefit from the unemployment insurance is paid for at most five days per week. AGE is paid for six months for unemployed aged between 40 and 44 which corresponds to 130 days with benefit from unemployment insurance. Twelve months are equivalent to 260 days and 18 months 390 days.

<sup>b</sup> If the individual is still unemployed after 300 days, he can be placed in a labour market program and get activity support of 65 percent of earlier wages up to a ceiling of a monthly wage of SEK 18,700 (USD 2,671). In this case activity support amounts to SEK 14,960 (USD 2,137) (for as long as participating in the activity guarantee) and AGE to SEK 40 (USD 6) for 90 days for unemployed with a previous monthly wage of SEK 30,000 (USD 4,285) and to SEK 14,960 (USD 2,137) and SEK 10,040 (USD 1,434) for activity support and AGE, respectively, for unemployed with a previous monthly wage of SEK 50,000 (USD 7,143).

## **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 coverage that covers all members of a trade union and insurance policies taken out

by individual members through their trade union. Those who do not belong to a trade union but who belong to an unemployment fund can take out individual private insurance.<sup>16</sup>

The following trade unions have at present taken out group income insurance that covers all members: Financial Sector Union of Sweden, National Union of Sales People, Salaried Employees' Union, Sweden's White-collar Union (SIF) Swedish Agricultural Graduates and Teachers Association, Swedish Association of Business Administration Graduates, Swedish Association of Scientists, Swedish Association of Graduate Engineers, Swedish Association of White-collar Workers who Work with Service and Support to the Public within Municipal and County Areas, as well as in the Church (SKTF), Swedish Pharmaceutical Association, Swedish Association of Graduates in Social Science, Personnel and Public Administration, Swedish Association of Graduates in Law, Business Administration and Economics, Computer and Systems Science, Personnel Management and Social Science, and the Association for Traffic and Railway in SACO.

The design of the insurance schemes is similar in the different areas although some differences exist such as the ceiling for the compensation or the length of the benefit period. The group insurances that cover all members of a trade union usually compensate for 80 percent of the monthly wage up to between SEK 35,000 (USD 5,000) and SEK 100,000 (USD 14,286) during 120 to 200 days and end when the insured is between 61 and 65 years old. Some trade unions also offer individual insurances that extend the benefit period or the wage ceiling of the member insurance.

The insurances that are offered by the trade unions to their members or that can be taken out individually directly from insurance companies usually have a longer replacement period of 280 to 300 days and the replacement rate is equivalent to the replacement rate of the public unemployment insurance (80 percent the 200 first unemployment days and 70 percent up to unemployment day 300). The income and age ceilings are similar in the insurance that is taken out individually and the group insurances that cover all members of a trade union.

We will here show the rules for SACO's group insurance policy that can be taken out by individual members. SACO is a confederation of 25 independent associations that together have over half a million members, all of whom are academics or graduate professionals with a university or college degree. The insurance company is SACO Salus Ansvar försäkringar AB. The insurance provides, together with benefit from the unemployment insurance, 80 per cent

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<sup>16</sup> The market for private income insurances is growing in Sweden. New income insurances due to unemployment are introduced continuously. Examples are unemployment insurances offered to American Express Card holders or members of the Association of Home Owners (Villaägarna).

of the wage during the first 200 unemployment days and 70 percent during the following 40 days up to a monthly wage of SEK 50,000. The insurance premium varies with the wage as shown for a number of wage levels in Table 6.

**Table 6     The insurance premium at different monthly wages for SACO’s income insurance, (amounts in SEK, SEK 1 ≈ USD 7, June 2007)**

<i>Monthly wage</i>	<i>Premium per month</i>
25,000	99
30,000	155
35,000	207
40,000	258
45,000	308
50,000	357

The insurance can be taken out by those who are aged between 21 and 60, belong to one of SACO’s member unions and to the Unemployment Fund for Graduates in Sweden, AEA. The insurance terminates at the end of the year in which the insured reaches the age of 62. 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 been dismissed due to improper conduct and must have been gainfully employed for at least twelve of the last 18 months for at least 80 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 7 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	–	155	357
Earnings-related benefit from unemployment insurance per month	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days
<b>Income insurance per month</b>			
≤62 years	0	9,040 for 180 days <sup>a</sup> 6,040 for 60 days	25,040 for 180 days <sup>a</sup> 20,040 for 60 days
63–64 years	0	0	0
<b>Total</b>			
≤62 years	12,000 for 200 days 10,500 for 100 days	14,960 for 20 days <sup>a</sup> 24,000 for 180 days 21,000 for 60 days 14,960 for 40 days	14,960 for 20 days <sup>a</sup> 40,000 for 180 days 35,000 for 60 days 14,960 for 40 days
63–64 years	12,000 for 200 days 10,500 for 100 days	14,960 for 300 days	14,960 for 300 days

<sup>a</sup> Because of 20 qualifying days.

## 6 Conclusions

The intention of the agreement on benefits and different types of supplementary insurance coverage in the case of unemployment is to increase benefit 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 paid over the ceiling, as a rule at 70 to 80 per cent of the wage. Compensation is provided for differing periods. Secondly, 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. Thirdly, benefits can also be paid as lump sum.

There are some problems in the design of the different systems and differences between the different systems. We are going to review 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 coverage. This can lead to locking-in effects. The protection against unemployment deteriorates during a transitional period on change of employer or sector.
3. 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 question is if and how the higher benefits provided by the various supplementary systems influence the incentives to job search. Do they affect the duration of unemployment?

As mentioned in the introduction, 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 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 the average unemployment period will be.

The existence of the supplementary schemes has in practice not 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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