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Unemployment insurance, social assistance and activation policy in Sweden

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1 Economic background

The labour force participation and employment rates in Sweden are on high levels compared to other European countries. The Lisbon Employment target is set at a 70 percent overall employment in 2010. In Sweden the overall employment is almost 76 percent for the population aged 16 to 64 (January 2007).

The labour force participation has been high during the last decades; in 1978, 80 percent of the Swedish population aged 16-64 participated in the labour force. The rate peaked at 84 percent in 1990 but has declined since then to 79 percent in January 2007. Women's participation rate is about 95 percent of men's participation rate.

Also unemployment has a history of low levels. Before the recession in the beginning of the 1990s the unemployment rate was steadily below 2 percent. In 1993 the unemployment had increased to 8.2 percent. Since then the unemployment has decreased and is today at 4.8 percent (Sjögren Lindquist, 2006; Statistics Sweden, Labour Force Survey).

1.1 Activation, unemployment and social assistance

The 'work principle' has influenced Swedish policy for many years and the basic element in the labour market policy is activation. Compared to other OECD countries, Sweden's public expenditure on labour market programmes are higher and more concentrated on active measures (Wadensjö, 2007). When becoming unemployed, the jobseeker and the employment office should together make up an individual plan on how the individual can get back into employment. The first step is to ensure that the jobseeker is adequately prepared to accept jobs available. Means to this end include a variety of employment policy programmes. It is also necessary for the unemployed to contact the employment office to be eligible to unemployment insurance.

1.1.1 Unemployment insuranceⁱ

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 or associated with 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 or associated with a fund for at least a year without interruption. However, the applicant is 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 in total defence duty can be counted as work, although at most for a combined total of 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.

Benefit according to the basic insurance is SEK 320 (€ 34) 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 week). Before benefit is paid, a five-day qualifying period must have elapsed.

To obtain income-related unemployment insurance, the membership, basic and work conditions described above must be fulfilled. The income-related insurance is paid for at most 300 days (at most five days 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 (€ 90) gross per day. This corresponds to a maximum daily gross amount of SEK 680 (€ 72). During the following 100 days the insurance is paid at 70 per cent of the previous daily wage. The maximum benefit is still SEK 680 (€ 72) gross per day. The daily income is equivalent to 1/22 of the monthly wage. 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 but the benefit is paid at 65 per cent of previous wages (for parents to children under 18 years benefits are paid at 70 percent until unemployment day 450). Once again, the maximum benefit paid is SEK 680 (€ 72) per day. The unemployment fund 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 fund that they do not plan to refer the jobseeker to the activity guarantee. The activity guarantee is presented below.

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 and the benefit is paid at 80 per cent of previous wages for the first 200 days and 70 percent subsequently.

If an unemployed 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 in 40 days and inhibited the third time.

There are 36 independent unemployment funds with over 3.7 million members. The Swedish labour force between 16 and 64 years comprises 4.6 millions and 1.3 millions in the same age group do not participate in the labour force. The unemployment funds decide on and pay unemployment insurance. The employment offices provide information to jobseekers and checks 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 on a labour market programme. There are 300 employment offices organised by 21 County Labour Boards with the National Labour Market Board, AMS, as responsible authority. Until 2003, the National Labour Market Board

also was responsible for supervision of the unemployment funds. From 2004, this role was taken over by the Swedish Unemployment Insurance Board, IAF.

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. From 1 January 2007, the unemployment funds are obliged to monthly pay an increased fee based on the number of members in the fund who has not been unemployed during the month. To finance the increased fee, the unemployment funds can increase the membership fee for non-unemployed members to a maximum of SEK 300 (€ 32) per month. This increase in membership fees has lead to a drop out of members from the unemployment funds. Since January 2007, 75,000 members left the unemployment funds which correspond to two percent of their members.

As stated above, the benefit period in the unemployment insurance is 300 days with a possibility of one renewal. Until 2000, participation in labour market programmes re-qualified for a new period of unemployment insurance. In practice, unemployed could go between periods of activation policies and unemployment insurance for years. To break this round-turn, the re-qualification for unemployment insurance from labour market programmes was removed.

In August 2000, the activity guarantee was introduced. The activity guarantee is for those who are or risk becoming registered as long-term unemployed (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. When participating in the activity guarantee, the unemployment insurance is replaced by activity support which corresponds to the same amount as the unemployment insurance. If the period of unemployment benefit together with the period of activity support has been longer than 300 days, the activity support amounts to 65 percent of former wages (for those with children below 18 years, the benefit level is cut to 65 percent from insurance day 450). For participants who do not qualify for unemployment insurance, the activity support amounts to SEK 223 (€ 24) gross per day. The activity guarantee separates from the system of round-turns between periods of active labour market policy and passive labour market policy since the unemployed is activated continuously without breaks (a four weeks vacation per year is allowed) until he enters an education without activity support or gets a job. If the unemployed leaves the activity guarantee, the activity support is cut. As long as the unemployed is participating in the activity guarantee he will receive activity support. In December 2005, 45,100 unemployed participated in the activity guarantee.

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 work-force. 15.5 percent of those who received unemployment insurance received the base amount.

1.1.2 *Social assistance*ⁱⁱ

A universal right to social assistance came in force in 1982 stating that all citizens in a municipality have the right to means-tested economic support. Each year the Government establishes standard levels for basic living costs which apply throughout Sweden, but the municipalities have the full responsibility for the financing of the social assistance (before 1998 these standard levels were only recommendations to the municipalities and the political board in the municipality decided on the norm). In 2007, the standard level for basic living cost for a single adult is SEK 3,470 (€ 371) per month. On top of the basic living costs, which cover food, clothes, telephone, TV-licence etc., the social assistance covers (the actual) housing costs, insurance, membership fee to the union and the unemployment fund. Above this, the municipalities decide on extra expenditure on dental care and other treatments.

Parents have no obligation to support children after the age of 18 (or 20 if still in school) and adult children have no obligation to support parents – only family members in the core unit has mutual obligations of support. If the applicant for social assistance lives together with a partner, the household's income is means-tested. To become eligible to social assistance, no savings or valuable assets are allowed. Social assistance can be granted to employees with very low (hourly) wage or short hours, unemployed with no or low unemployment insurance and other individuals who are living on means that are lower than the national poverty norm. Recipients have the right to appeal decisions about social assistance to the County Administrative Court (Länsrätten).

Since 1998 the Social Services may impose requirements on an applicant who are not employed to search for a job if he is judged by the social worker as able-bodied. If the unemployed is younger than 25 years, is older than 25 years but has a special need for competence increasing measures or is a student without a job during a study break he is obliged to participate in an activation programme to receive social assistance. Before 1998 participation was voluntarily. The obligation is not mutual, since the municipality is not obliged to provide training programmes. Social assistance can be denied or reduced if the unemployed refuses to participate in activation.

The share of the population who receives social assistance has been stable between 4 and 6 percent (including children) during the last century with some exceptions as during the depression in the 1930s and the economic crisis in the 1990s. During 1996 and 1997, when the number of social assistance recipients was the largest, 8 percent of the population and 10 percent of the households received social assistance. Since then the share has decreased to 4 percent of the population in 2006. During 2005, 36 percent of the recipients were unemployed without unemployment insurance.

2 Transferability and conditions for application

As in Germany, authorities on different levels with separate budgets handle the social assistance respectively the unemployment insurance and the labour market programmes. The unemployment insurance is mainly financed by the state budget but also by membership fees to the unemployment funds. The national labour market programmes are financed by the state budget. The social assistance and local labour market programmes are financed by the municipalities. However, the parliament decides on the Social Services Act and the level of the assistance for basic living costs. Recipients of social assistance have access to the national activation programmes but also to local activation programmes financed by the municipalities.ⁱⁱⁱ However, historically there have been criticisms from the municipalities that recipients of social assistance had unequal access to the national labour market programmes and now days that unemployed with unemployment insurance are given priority to the activity guarantee (see e.g. Giertz, 2004). There is one study on the number of social assistance recipients in comparison to the number of unemployment insurance recipients who participate in national labour market programmes in 2000, made by Giertz (2006). In the study it is shown that 19 percent of all recipients of social assistance participated in a national labour market programme compared to 29 percent of the recipients of unemployment insurance. Among those who both had social assistance and unemployment insurance, 43 percent participated in a national labour market programme.

Since 2004, municipalities (responsible for social services and social assistance), county councils (responsible for rehabilitation), county labour boards (responsible for labour market programmes) and the Social Insurance Administration (responsible for activity support and social insurance) have the opportunity to co-operate regionally in terms of labour market rehabilitation (rehabilitation is here a broad concept including measures to prevent long term unemployment) (SFS 2003:1210). All four authorities need to be involved to form a 'co-operation centre' and they are financing 25 percent each of the costs. The object is to co-ordinate resources to facilitate labour market rehabilitation for long term unemployed and to become more cost efficient. The co-operation concerns rehabilitation for disable-bodied but also measures to prevent long term unemployment. A computer based system for evaluation of the co-operation between the different authorities (SUS) has been developed. All activities offered (including information on budget, time frame, goals, target groups etc.) and all individuals that participate in these are registered in SUS (on www.susam.se) and different quality measures are used to evaluate the activities. The system has been in use in fully since 2006 and it is too early to evaluate the co-operation between municipalities, county councils and the social insurance administration. This new system for co-operation is in line with the German co-operation between municipalities and Agencies for Work.

Sweden has similar experiences of switchyards as Germany. During the 1990s, some municipalities created temporary municipal jobs to give recipients of social assistance labour market experience. One 'side effect' of these jobs was that they qualified an unemployed to the government financed unemployment insurance. Once receiving unemployment insurance, there is a very low probability to lose it. The activity guarantee offers activity support for as long as the individual is unemployed and participates in the programme (i.e. unemployment insurance in the form of activity support can be considered open-ended) and can be compared with the 'Arbeitslosenhilfe' in the former German system.

As in the former German system, there are weak incentives to take up low wage jobs especially for recipients of social assistance. In Sweden social assistance is reduced one-to-one with wages so there is no immediate positive income effect of taking a low paid or part-time job. However, social assistance does not contribute to pensions or social insurance so there is an income effect in the long run of taking a job. The new German benefit system could improve work incentives for recipients of social assistance since the reduction is not one-to-one and contributions to health, long-term care and pension insurance are being paid for in Unemployment benefit II (even though the contributions are small). To abandon the existence of switch-yards, Unemployment benefit II could replace the activity support and social assistance for able-bodied in Sweden.

3 The Swedish debate

Workfare is much under discussion in Swedish politics. The topic of unemployment, unemployment insurance and social assistance is of immediate interest. During the spring and autumn 2007 and winter 2008 we will watch a restructuring of the labour market policy and the labour market authorities and also find new actors on the work agency arena. The new right-wing government has made workfare into their motto and we will have an interesting, but turbulent time in front of us. In this section I will focus on three issues raised and debated in Sweden during the last months; the workfare programme of the new government, the suggestions made by the 'Commission on how to transfer social assistance recipients into work' and a new suggestion on co-operation from the organisation for temporary help agencies.

3.1 The new Government

Sweden got a new right-wing coalition government in September 2006. In the election campaign, workfare was one of the main subjects. Since the right-wing coalition went into power, they have presented and introduced some new unemployment policies. From 1 January 2007, they cut the ceiling in the unemployment insurance and introduced a lower compensation level after 200 days of benefits to stimulate labour supply. The government also implemented a tax relief (jobbavdraget) for those who are working, which deducts income taxes by between SEK 600 and SEK 1,200 (€ 63 and € 126) each month, to increase incentives for work. They have introduced a programme called 'Fresh-start-jobs' (Nystartsjobb) which means that employers who employ long-term unemployed (unemployed for more than a year) do not have to pay pay roll taxes for a period corresponding to the unemployment spell. If the unemployed is over 55 years old, the period without pay roll tax is doubled.

The government came with a new proposition (Proposition 2006/07:89) on how to reform the labour market policy on 22 March 2007. They suggest that

- The Activity Guarantee is replaced by a 'job and development guarantee'. Individuals who have received unemployment insurance in 300 days (450 days for parents to children below 18 years) and unemployed without unemployment insurance who have been unemployed for at least 18 month can be offered the labour market programme job and development guarantee. The exact content of the programme will be presented by the government during the spring 2007. Participants in the job and development guarantee who received unemployment insurance will receive activity support equivalent

to 65 percent of earlier wages. Participants without unemployment insurance will receive the minimum amount of SEK 320 (€ 34) gross per benefit day for a maximum of 450 days.

- The unemployment insurance will be paid for 300 days. If the unemployed has children below 18 years, the period consists of 450 days. The possibility of being granted a second period of unemployment insurance will be abolished.
- The National Labour Market Administration is re-organised. To create efficiency, flexibility and a less costly organisation and to protect the legal rights of the individual, the National Labour Market Board (AMS), which is the central authority, as well as the 20 County Labour Boards (länsstyrelserna) will be closed down and one new authority will be established.

3.2 The Governmental commission on transition from social assistance to work

In 2005 a governmental commission on how to transfer social assistance recipients into work was appointed. The commission gave its report in January 2007 (*Från socialbidrag till arbete*, SOU 2007:02). Some of the commission's suggestions are:

- Changes of working methods at the employment offices by e.g. buying external services from temporary job agencies and firms selling education, 'job agents' who will focus on contacts with employers and industry representatives, 'establishing jobs' for those who do not qualify for 'Fresh-start-jobs' giving the employer a tax reduction of 50 percent of the wage costs for six month and introducing mentoring schemes.
- Increased economic incentives for working. No reduction in social assistance for wages or wage increases below SEK 1,500 (€ 158) per month for six month for individuals who take jobs, increase working hours or change jobs.
- One common welfare organisation on the local level or more co-operation between the authorities responsible for social assistance, labour market programmes, rehabilitation and unemployment insurance. It should not be necessary that all four authorities are involved in all co-operations.
- Better rehabilitation for individuals on social assistance. One example is rehabilitation through work in social and work cooperatives. The strength of social and work cooperatives is that they are based on participation, self-help and giving people opportunities to develop and regain control over their own lives and that this is a form of rehabilitation in it self.

3.3 Temporary job agencies

The Government's directives to The National Labour Market Administration for 2007 states that the employment offices should use 'complementing actors' to improve matching on the labour market. One such actor is temporary job agencies. 'Bemanningsföretagen' is the employer and interest association for temporary job agencies. As a response to the government's directives to The National Labour Market Administration, Bemanningsföretagen has come with a proposal to the government on how to form the rules and the financing of the co-operation between the employment offices and the temporary job agencies. The suggestions are based on investigations of the Australian, Danish and the British systems. The main points are presented below.

- The government finances the services. A voucher is introduced that follows the unemployed. The agencies are paid in three steps; when they receive a client, when the client has got a job and when the client has held the job for some period. The remuneration is higher for long term unemployed and other 'tough cases'.
- Full competition between public employment offices and private work agencies.
- One central database over job seekers and vacancies that is open for all employment agents.

On 3 April 2007, 'complementing actors' were invited by The National Labour Market Administration to co-operate in three county councils during a trial period of six months starting in July 2007. At least 1,000 unemployed will participate. The target groups are young, immigrant or disabled long-term unemployed. The unemployed will be randomly chosen to participate in the experiment. The complementing actors will be paid in three steps; when they receive the client, when the client has got a job and when the client has held the job for three months. After the trial period, the experiment will be evaluated by The Institute for Labor Market Policy Evaluation, IFAU.

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ⁱ The information on the unemployment insurance is taken from the webpage of the Swedish Unemployment Insurance Board, IAF; www.iaf.se, and Sjögren Lindquist and Wadensjö (2006).

ⁱⁱ This section is based on Giertz (2004), Socialstyrelsen (2007) and Socialstyrelsen (2002).

ⁱⁱⁱ Salonen and Ulmestig (2004) estimate that approximately 10 percent of the recipients of social assistance participates in local labour market programmes financed by the municipalities.