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**Recent development in unemployment  
insurance in Sweden**

**Bo Lundgren**  
Head of Supervisory Division  
Unemployment Insurance Board  
Sweden

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# Recent development in unemployment insurance in Sweden

**Bo Lundgren**  
**Head of Supervisory Division**  
**Unemployment Insurance Board**  
**Sweden**

In January 2004 the Swedish Unemployment Insurance Board (*Inspektionen för Arbetslöshetsförsäkringen* (IAF)), a new State body, was established as a new actor within the Swedish unemployment insurance system. Its main tasks are to monitor how the Unemployment Insurance Funds (UIF), the Public Employment Service (PES) and the Swedish Labour Market Board (*Arbetsmarknadsstyrelsen* (AMS)) perform their respective roles within the insurance.

The decision to form this new State body was taken in the autumn 2002. It was a step to focus on the performance of the PES in its role to check that job seekers meet the conditions required to receive unemployment benefits (UB). At the same time the new body took over the tasks from AMS of giving more detailed administrative instructions within the insurance and to monitor the UIF. The UIF although being private organizations have the role of a State body in as much as the basis for its activities is in detail regulated by law.

The intentions behind the forming of IAF was to further strengthen the "readjustment" role of the unemployment insurance, an effort which already at the beginning of 2001 led to a revision of a number of regulation within the insurance. The most important of these revisions were:

- that a person receiving UB after 100 days of compensation shall be ready to take on any suitable job even if it means working in another line of work or moving to some other place within Sweden. The possibility to, during 100 days of compensation, limit yourself to look for work within your own profession or within a 12-hour commuting area was theoretically a slackening of the previous rule. In fact however this was a partial adaptation to an established practice where the demand on the job-seeker in these respects generally was on a much lower level. So in fact this new "100-days regulation" has to be seen as a demand that the job-seekers shall look for work more flexibly than before;
- that participation in certain labour market programme, such as labour market training or different practice programmes, could no longer be used to fulfil the work-criteria when applying for unemployment compensation. (Programmes which are based on some type of subsidized employment are still, in most cases, accounted for when applying for compensation). This revision was intended to safeguard against reoccurring and indefinite numbers of compensation periods without having work in between. To some extent the effect of this was reduced by introducing the possibility to allow for 300 days' prolongation of the original 300 days' benefits period. The

condition however is that the PES judges that this will better serve the purpose of getting a job than would the participation of the special "activity guarantee programme" which was introduced at the end of 2000;

- an "escalating system" of sanctions in cases where the individual does not meet with the activity demands of the insurance. This was partly introduced in order to facilitate for the PES-staff to pursue their controlling of the job-seeker more consequentially;
- that the job-seeker shall participate actively in the drawing up of a plan of action on how to get a job in the most effective way.

## **General background of the Swedish unemployment insurance**

The first form of unemployment insurance in Sweden, "help-funds" was created before 1900. Since then it has gradually developed into today's highly regulated system based on law. From the very beginning there existed a close link between the trade union and the unemployment fund that was to assist workers in the respective field in case of unemployment. This has today, to some extent become a problem since the trade union is an interest organization for its members whereas the funds, although being a private organization are performing government authority tasks that are strictly regulated by law.

The funds in general (like the trade unions) do not compete for members since they are usually limited to a segment of the labour market defined by what is referred to as the fund's organizational area. This has become somewhat more complicated since the creation of funds in the service/white-collar professions. The special fund for persons with academic education can recruit members who work in areas where other unions and funds also operate. There is also a new fund created in the 1990s – The Alfa fund – which has no connection with any trade union. As a member of that fund you can receive the same kind of benefits as a member of any other fund. The system also includes a special unemployment insurance fund for small entrepreneurs.

From the mid-thirties the unemployment benefits have been partly financed by the State. The membership fees to the unemployment funds cover both the fund's administration costs and part of the benefits paid out. In 2004 the insurance paid out some SEK32 billion (roughly EUR3 billion). Of this amount 9.4 per cent was covered by membership fees (the financing fee). These fees also covered the fund's administration costs which amounted to some SEK1.2 billion.

Both the financing fee and the administration costs of the funds are covered in solidarity by all the funds. The result being that the membership fee – the cost for the individual too benefits from the insurance – is about the same, irrespective of which unemployment fund you belong to. This of course is in contrast to the idea that each section of the labour market should carry its own cost of unemployment benefits paid out, thereby to establish a pressure on the wage level with the eventual result that demand for labour raises and unemployment diminishes. This kind of arguing never held a strong position in Swedish politics. During the ongoing election campaign this idea however is brought forward by the conservative/liberal alliance. The proposition is that a substantially larger part of the costs for the insurance should be financed by individual fees from those insured. Yet there is no proposition that those segments of the labour force who face the highest unemployment should also take on the heaviest burden for financing the insurance.

During recent years some unions have made arrangements for their members to sign for a collective complementary insurance. The reason for this is that the general unemployment insurance has left a growing part of those who receive unemployment benefits with less than the stipulated 80 per cent of their previous income. The 80 per cent compensation during the first 100 days of benefits only applies for persons with a previous income up to SEK20,075 per month.<sup>1</sup> After 100 days of compensation 80 per cent is received only by those with a previous income of up to SEK18,700.<sup>2</sup> Last year (2005), apart from the 13 per cent who only received the basic unemployment insurance,<sup>3</sup> around 45 per cent of those who receive the income related benefits do not receive 80 per cent compensation compared to their previous income. One reason for this is of course that the maximum compensation level has not been upgraded at the same pace as have the wages. Another is a growing rate of unemployment even among persons with better than average wages. Furthermore, those who do not reach 80 per cent compensation do in fact as an average receive only 60 per cent of their previous income. This of course is the reason for the building up of the complementary insurances. The complementary insurances are of course fully financed by the individual insurance fees. And here each organizational segment has to carry its respective cost for the complementary insurance. This means that this type of insurance would be very costly for persons within segments of the labour market with high unemployment rates.

## **The concepts of an active labour market policy and an unemployment insurance to promote "readjustment" in the labour market**

Since the forming of the modern labour market policy in Sweden at the end of the 1940s, the unemployment insurance has been considered to be an integrated part of that policy. The insurance should provide economic support during a "transitional period" when the individual who lost his/her employment or left school actively seeks a new employment.

There are two main concepts around which the labour market policy and the unemployment insurance in Sweden concentrates:

- an active labour market policy;
- an unemployment insurance to support the individual's readjustment on the labour market (*omställningsförsäkring*)

What is needed if the unemployment insurance is to have that effect?

- It should not be paid unless the individual has the possibility to take on work during at least a minimum number of hours each week.
- It should require that the individual looks for work actively.
- It should require of the individual to participate in labour market programmes which aim at supporting the individual's possibilities to reenter into the labour market.
- The person should not in the long run be allowed to look only for the same kind of job as they had before or have the training for.
- The person should not in the long run be allowed to look only for a job within a limited geographical area.

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<sup>1</sup> With this income you reach the maximum compensation level of SEK730 per day.

<sup>2</sup> With this income you reach the maximum compensation level of SEK680 per day.

<sup>3</sup> The basic insurance gives a maximum of SEK320 per day.

The principles above were not put to any hard test during the first two decades after the war. The reason was a situation which has been described as full employment. In fact the demand for labour in industry led to a substantial labour immigration from countries like Greece, Italy, Yugoslavia, and Hungary. At the same time the rate of employment among women however was much lower than during the last decades.

Gradually the situation turned into one where structural change within industry, due to growing international competition, was combined with an increasing demand for labour within the private and public service sector. The labour immigration period had lost its momentum and now the policy of activation and readjustment was at its height. The rate of employment among women was growing to a substantial higher level than before and the era of being a full-time house-wife came to an end for most women. At the same time this situation showed that an underlying assumption for the readjustment concept was that there was at least some balance between vacancies and unemployed. There was not however any need for this balance to be exactly constant over time. The activation and readjustment strategy was also looked upon as a way to bridge over relatively short periods of recess and shortage in the demand for labour.

## **What are today's main challenges for an unemployment insurance to support a readjustment strategy?**

Since the deep recession during the beginning of the 1990s, the demand for labour has not as yet reached the same level as during the 1980s. This of course has had great practical implication on both the general role of the PES and this way it is possible for the PES to control that the regulations for receiving unemployment benefits are followed. Behind the demand to actively look for work there is an assumption that this will shorten the time of vacancy and the time of unemployment and thereby contribute to a well functioning labour market. In today's situation where there often are many job-seekers for each vacancy it might be argued that a very intensive job seeking from each individual does not necessarily improve the effective functioning of the labour market. On the contrary, it might be argued that the demand to look actively for work should be limited not only to what is defined as suitable according to the regulation of the unemployment insurance but also to jobs that there is a fair possibility for the individual to get. This of course will call for a highly professional judgement from the PES case worker. To leave this only to the unemployed themselves might not be a good idea. But the question of how to define active job seeking for the individual and how to control it is possibly much more complex in today's labour market than during the 1970s and 1980s.

On top of this general problem of activity there are a number of potential "locking-in-effects" that need consideration when the regulations of the unemployment insurance are pursued. Here we will list some of the most common limitations to "being able to take on a suitable job" which constitutes challenges to the readjustment intention of the insurance. Each of these situations could be commented on at length since these limitations most of the time emanate from other interests of the individual and/or interests of other actors in the labour market. Although being "disturbing factors" for the insurance regulation they cannot easily be dismissed as totally irrelevant.

- Persons who limit job-seeking only to the type of job they had before or to the type of job for which they have a professional training. In its extreme it might mean that they apply only for their "dream-job" if and when it occurs. When it i.e. comes to controlling job seeking activities for artists and musicians etc. who receive UB it is

easy to imagine that the demand to look for another kind of job will not be given any big applause.

- Persons who limit the job-seeking only to work close to the place of their residence and its close surroundings or who dismiss any suggestion of looking for work in other parts of the country to which they would have to commute or move.
- Persons with a part time job or intermittent employment in combination with unemployment insurance might limit themselves to look only for more jobs with the same employer and might be reluctant to leave a more long-term part-time job for a shorter fulltime employment. This kind of potential "locking-in-situation" is much more common among women than among men.
- A special situation of a similar type as above occurs for persons who take on work for companies that provide manpower to other employers.
- Persons who from year to year have seasonal work with periods of unemployment benefits in between.
- Persons who might want to use their unemployed period (with unemployment benefits) to study in order to improve their chances to get a job.
- Persons who have a business of their own and might want to cling on to this "just in case".
- Persons who during participation in labour market programmes use little or no time looking for ordinary work. (Although these persons during the participation in the programme receive a special activity compensation or salary.)

It is easy to see that these situations constitute limitations to the "readjustment" intentions of the unemployment insurance. In some of these situations (like studying, business of your own and reoccurring or part-time employment with companies that provide manpower) there exist regulations and interpretations. From time to time individual cases concerning these different types of situations are brought to an administrative court that will reach a decision on how the insurance regulations should be interpreted in that individual case. In this respect we surely have come a long way from the first funds that were established in the 1870s.

## Annex



