

National report - Sweden

Etuc SociAll Project

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Summary

This paper describes the Swedish pension system and its national framework.

The current Swedish general pension system (First pillar pension) was launched in 1999 after thorough reform work.

The aim was to create a robust system, which would consider the increased life expectancy of the population and economic development. The general pension system consists of three parts, income pension, premium pension and guaranteed/basic pension. The basic pension, which is based on period of residence in Sweden, provides a minimum pension level. Pensioners may also be entitled to housing allowance and maintenance support for elderly.

The second pillar, the occupational pension, is in most cases (90 percent, collectively agreed and thus part of the wage formation. Agreements are nationwide.

The third pillar consists of individual supplements or private savings for pensions. These savings were tax deductible until 2006, but not after that.

However, the Swedish pension system is facing several important challenges. The design of the system bases on the fact that the average retirement age increases in line with the increase in life expectancy. However, during the actual time, expected longevity has increased more than anyone would believe at the introduction of the general pension system. Meanwhile the average age of retirement has remained the same. This has meant that the proportion of the working-age population has decreased. During this time, pension contributions as a share of income have been stagnant. Therefore paid pension decreases in relation to previous earnings. Today many pensioners receive a significantly lower pension than expected and many live on less than 60% of the median income in the country which is the poverty-line.

To remedy this, it is necessary to either substantially increase contributions to the general pension scheme or gradually increase the retirement age, to get a more even balance between the proportions of pensioners and people in the labour force. In the next section, I have made calculations showing that a gradual increase

in the pensionable age from 65 to 70 years over the next 50 years would be enough to create such a long-term balance.

The calculations are based on a so-called **Dependency ratio**, calculated here as the ratio between on one hand the number of children aged 0-20, the number of older people above retirement age and the number of inactive people and, on the other hand, the employment rate among the working people. It is thus a more precise measure than is sometimes used when you look only at the relationship between the proportions of over-65s in relation to the proportion of working ages. However, I have also problematised the concept of employed persons and pointed out that the international measure of employment only requires one hour of work during the week of measurement. I also report statistics on how many people are included in different parts of the dependency ratio that are sick, early retirement and the unemployed; concepts that over time have undergone major definition changes.

Another section presents groups at high risk of receiving a low pension once it is time to leave the labour market. This includes refugees whose employment rate rises only slowly after reception in Sweden. This also includes groups with atypical forms of employment, such as employees without collective agreements, temporary agency workers, self-employed undeclared workers, and groups with several different jobs.

Finally, I review the need for reforms to provide Sweden's pensioners with a decent standard of living through the public pension system. The most important reform is an increase in the retirement age. However, as such decisions have dragged on; there is a great need for improvements to raise the income of current and future pensioners who receive low pensions. For this purpose, the Swedish government has launched an income pension supplement aimed at pensioners who, despite a long working life, receive a low pension. The income pension supplement has been criticised, as it is financed via the state budget instead of within the pension system; it is considered to create the risk of distortion of the Swedish pension system's basic structure.

Other reforms included are measures directly targeted at the pension system itself, but also measures relating to the definition and measurement of the concept of the level of supply and its ingredients.

- Refined definition and measurement of the employment rate
- Improving the establishment of refugees on the labour market through better education in Swedish school and vocational training
- Review and coordination of the regulatory systems for health insurance, sickness and activity support and unemployment
- Substantial investments in a better working environment
- An expanded system for skills development and lifelong learning



- An increase in contributions to the old-age pension scheme within the framework of the employer's contribution. However, there is hardly any room to increase this contribution.
- Better thought-out reform of the proposed income pension supplement

The national framework

At the end of the 1990s, the Swedish Parliament decided on a major pension reform that came into force in 1999. Instead of a defined benefit-based system, which was considered too costly, a fee-based system was chosen. Under the current system, the pension is based on life income and on contributions paid.

The Swedish public pension system is to the most part a pay-as-you-go distribution system, which means that the today's workers pay the pension for those retired. This, together with buffer capital, means that the system can cope with current changes in GDP and population pyramid. This makes the Swedish system cost-effective and sustainable from an economic point of view. At the same time, the purchasing power of pensions will be less than the old system if people do not work longer.

The system balances according to economic development in Sweden. If economic development is worse than expected, the level of pensions paid will be adjusted. For younger people, this means that pension entitlements become less valuable, and for the older generation less pension paid.

Many countries around the world face the problem that their pension system takes up an increasing share of GDP. This is for example often the case for Defined Benefit-systems where the level of pension is guaranteed. At the same time, the challenges in the Swedish system are increasing. In order to balance the proportion of people who work and those who are not working, more people need to choose to postpone their retirement, so that the actual average retirement age gradually increases. Contributions to the pension system need being increased if payments to pensioners are to maintain their purchasing power. At the same time, people with physically and mentally heavy jobs who have already worked a long life require allowance to retire in relation to the number of years they have worked, without the pension becoming so low that it approaches the level of basic protection in the pension system.

The Swedish Pension System

Retirement income come from several sources. The State is responsible through the Swedish Pensions Agency for **the general pension** consisting of an **income pension** and a **premium pension**, both of which are income-based. The contribution is 18.5 per cent on pensionable income (17,21 per cent of all income) up to the 7.5 income base amount, of which 16 per cent goes to the income pension and 2.5 per



cent to the premium pension. In addition to work income, sickness and activity compensation and unemployment insurance are included.¹

For each year that you have an income and pay taxes in Sweden, you get pension entitlements, which is the pension earned. The pensionable income determines the amount of pension entitlements. The pensionable income is your annual income up to a certain ceiling after deduction of the general pension contribution.

Not only salaries give pension entitlements. Income that replaces earned income, such as sickness and activity compensation and unemployment insurance benefits also provide pension entitlements, likewise parental leave or studies.

The Swedish Pensions Agency administers the general pension. The payments from the general pension are lifelong. The AP-funds (General Pension Funds) manage the pension money, thereby investing them according to rules established by Parliament.

The premium pension is part of the general pension invested in funds that the individual can choose out of a specific range. The choice of funds can be decisive for the return on investment and thus the size of the future pension. If you do not make a choice, the premium pension is invested at medium risk in a state default option..

The occupational pension is a deferred salary, which converts into pension at withdrawal. Collective agreements between trade unions and employers regulate the amount of the pension contribution, which is thus part of wage formation. Negotiations take place at national level between the social partners in private and public sectors.

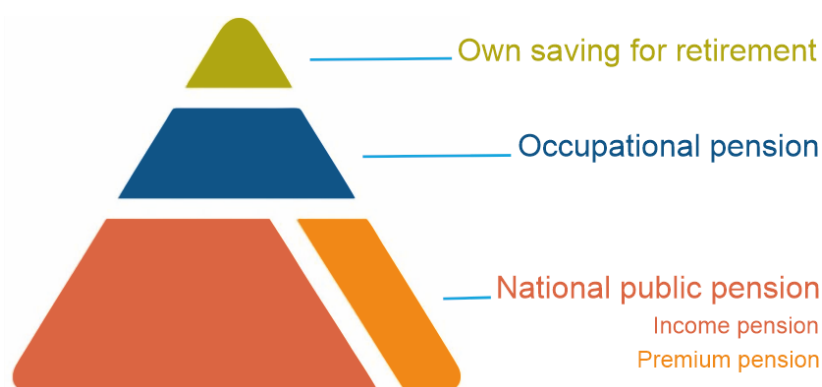
Normally, the occupational pension contribution amounts to 4.5 per cent of the individual's salary up to a ceiling of 7.5 per cent of the income base amount (monthly salary of SEK 41,750 2020) and 30 per cent above the ceiling. For income above the ceiling, the occupational pension will be higher. Occupational pension companies, selected by the social partners, manage the pension money. The selection process can differ according to sector and category on the labour market. Part of the occupational pension might pay out during a limited time, 5 or 10 years, while the payment of other parts may be lifelong.

You can also save privately for your pension in a bank or through insurance companies. From 2016, the tax subsidy, which previously gave the right to deduct in the tax return for private pension insurance or individual pension savings, was discontinued. Private savings and part of the occupational pension may be paid out for a limited period according to choice.

¹ 93 per cent go directly to the income pension, while the other 7 per cent goes to other social security contributions.



1. The pension system in Sweden



AP Funds – a kind of transfer system

The income pension is managed by the General Pension Funds, the so-called AP funds. In theory, we pay money to four AP funds (AP1 – AP4) who manage the money until we choose to take them out as a pension again. While the AP funds manage the pension money, we get interest on the money corresponding to the average wage increase in society. This means that the income pension develops in line with the national economy.

In practice, the AP funds are rather a transfer system where one year's payments are paid again in the same year. Therefore today's workforce finance today's payments of income pensions. In short, this system is based on the fact that the sum of one-year contributions must be at least equal to the sum of the same year's payments, otherwise the income pension system runs into deficit. The AP funds may have generated surplus and have buffers, so they can cope with a period of deficit. But if the deficits are not overcome, the buffers do not cover it and income pensions will be at risk. Therefore, the system has a built-in mechanism, the so called 'brake' to prevent long-term deficits and make the system sustainable in the long term.

Once the mechanism comes into force, it adjusts the income pensions until the system comes back into balance. In practical terms, it works in such a way that after each year an account shows whether the income pension scheme has gone into surplus or deficit the year before. If the system has gone into deficit, the brake activates for the year to come, which means that the brake has a delay of one year.

During **the financial crisis** of 2008-09, the pension system ran into deficit, not because of reduced contributions, but through a fall on the large stock market, which occurred at that time. It is too early to say how the Corona crisis will affect the pension system.

Supplement to the general pension

There are also other parts of the general pension, which are obtainable if you have had a low or no income at all.

The guarantee pension is calculated according to the number of years you have lived in Sweden. A full guarantee pension requires that you have lived in Sweden for 40 years. For each year taken to 40 the pension is reduced by one-fortieth. For those who have previously resided in another EU/EEA country or Switzerland, the Swedish guarantee pension will be calculated as a minimum benefit, considering insurance periods and pensions granted from the other country. People who have immigrated to Sweden risk receiving a low income pension and also a lower guarantee pension.

Pensioners and over 65s who have a low pension can also apply for **housing allowances** and **old-age support**. In the event of the death of a close relative, survivors may receive a survivor's pension (orphan's pension, conversion pension and widow's pension).

The Swedish parliament has adopted a proposal to establish a completely new pension benefit - **the Income Pension Supplement** - from 1 September 2021. The aim is to increase the pension for people who have worked a whole life with low pay. The supplement is expected to increase disposable income for 55 per cent of persons aged over 65. The proportion is slightly higher among women than among men; 62 per cent compared to 48 per cent.

The Income Pension Supplement has suffered heavy criticism, not because the income pension is increased, but because the increase is financed through the state budget, thus taking place outside the existing pension system. It is contrary to two of the basic principles of the pension system: that the pension should be based on life income, and that pensions should be financed through contributions to the pension system. Unlike the state pension, the supplement is not financed by contributions, but the money is directly withdrawn from the state budget. Therefore, the income pension supplement contains a risk, making the pension system more complex and difficult to understand.

Increased retirement age

In the past, 65 years has been a target age for old-age pension. However, currently in the general pensions system, there is no specific target age and it has been possible to take out a pension from the age of 61 or to postpone the withdrawal as long as you wish. The Employment Protection Act (LAS) has given the right to stay on the job until 67 years.

From 2020, the earliest age for the withdrawal of an old-age pension is pushed up to 62 years and the right to remain in work has been extended to 68 years. In 2023, the



target age will raise to 66 years, the minimum age will be 63 and the right to remain in work be extended to 69 years.

The Swedish Parliament has decided on a target age for pensions, which will be regulated according to the development of average life expectancy. From 2026 onwards, the age limits in the general pension system are expected to link to the target age.

In 2026, the target age will rise to 67, and the minimum age for taking out a pension will be raised to 64, while the retirement age will be linked to the development of life expectancy.

There are also proposals to postpone the right for the earliest age to take out a guarantee pension to 66 in 2023, and to 67 in 2026. There is no decision yet on a continued increase in the limit for the withdrawal of a guarantee pension, but one can be expected. It can thus be said that the retirement age will gradually be raised in Sweden over the next few years in line with the estimated life expectancy of the population.

The Pensions Working Group

The Pensions Working Group is an important broad group which includes representatives from six political parties behind the long-term pension agreement. In addition to the four government parties, two other parties within the Swedish Parliament are also included.

The Pension Working Group's assignment is to safeguard and care for the pension agreement, namely the pension reform and its basic principles. The pension group should consult on issues relating to the pension reform and, if necessary, initiate adjustments to the pension system. Chairing the group is the Minister, whose main responsibility is the public pension system. Other members should be members of the Swedish Parliament as well as members of the Parliament's Social Insurance Committee.

The Pension Working Group has agreed to increase pensions in the short term through the pension supplement. In addition, various proposals are underway, aimed at increasing the difference in pension income between those who worked and those who did not work, i.e. that it must always pay the pension to those who have worked.

Challenges

In the late 1990s, the current general pension system was agreed on between most of the parties in the Parliament. The trade union movement also supported behind the system, which paved the way for the reform to be carried out with very few



protests. The new system is based on life income and is linked to both economic and demographic development.

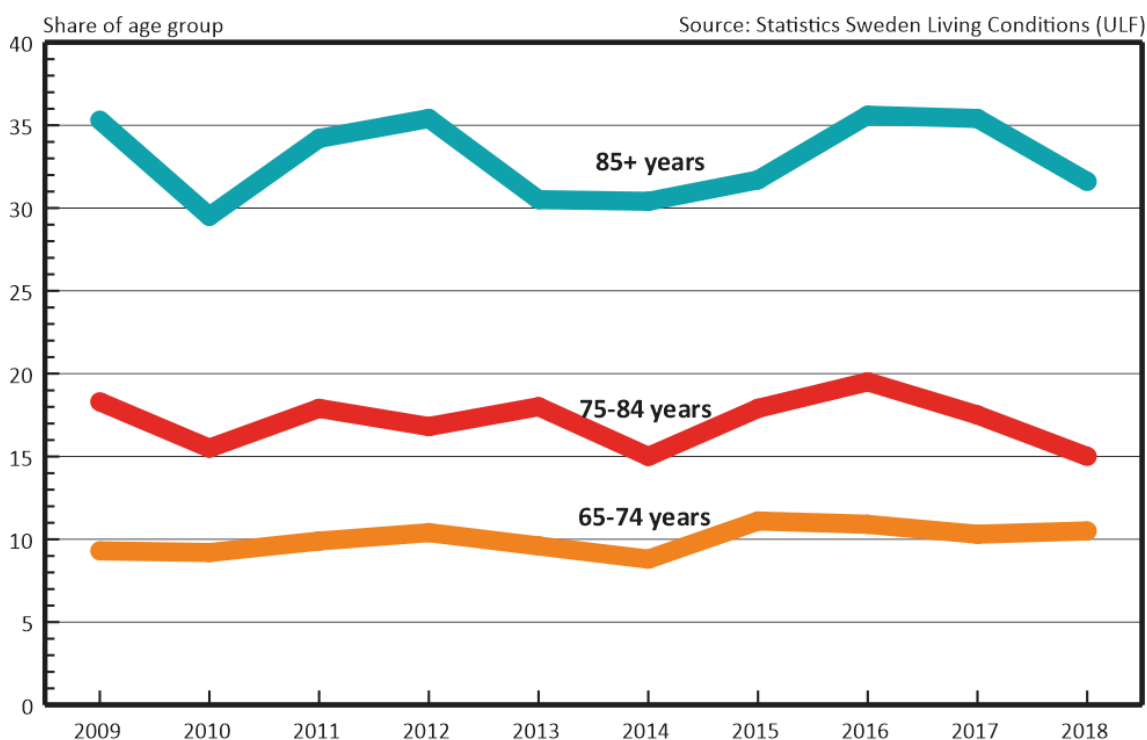
The goal of the original pension agreement was that the general pension would correspond to at least 60% of the final salary, given that life expectancy did not change. The idea was already that working life would be extended in step with life expectancy. However, no one could then predict how much life expectancy would increase.

Today, large groups in the population have a low pension. Here are many women who have only worked for a few years and with low pay. Also, those who had to stop working before the normal retirement age due to the work being too physically or mentally strenuous, risk getting a low pension.

The same applies to those who, for various reasons, such as structural changes, have been long-term unemployed. People who have immigrated to Sweden and who do not fulfil together enough years of work or residence in Sweden, are also a group that risks finding it difficult to manage on their pension. For them, the guarantee pension will also be low.

Sweden has a higher proportion of poor pensioners than the other Nordic countries and it is even higher than the average in the OECD countries. Poverty here means living on an income that is less than 60% of the median income in the country. The diagram below shows poverty in different age groups 2009-2018. The improvement that took place in 2017-18 is linked to the economic boom, which led to more newly arrived people getting jobs. That development has been broken in 2020.

2. *Risk of poverty* in different age groups 2009-2018*



*Living on an income less than 60 per cent of the median income in the country.



I will go through several factors that must be taken into account in order for us to understand what challenges the pension system faces and how we design policies to deal with them.

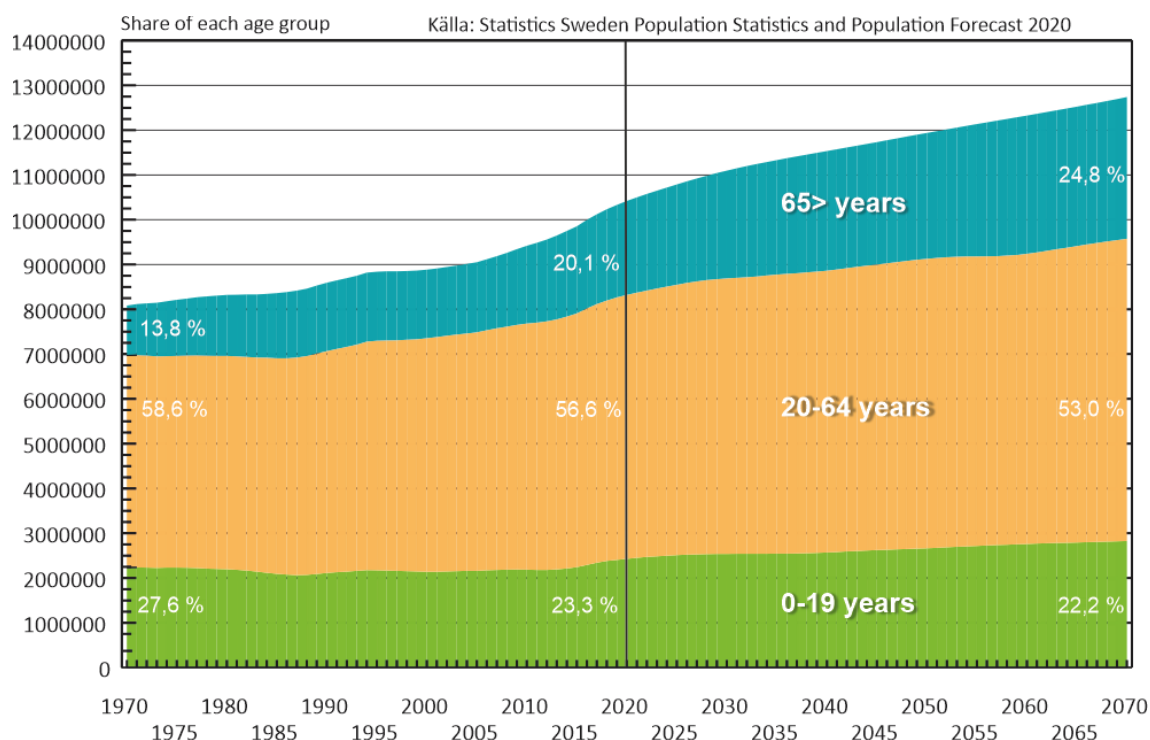
- The growing proportion of older people
- An economy that can create welfare for children, those of working age and those who retire.
- The declining proportion of those who work and whose income is to pay future pension contributions.
- The need for more young people to get a solid education
- The need for immigrants to be integrated into society and working life
- The need for an increased retirement age
- The need for mechanisms enabling work until retirement age and the need to simultaneously satisfy groups that have worked for a long time in the labour market and need to retire earlier

An increasing number of older people

Life expectancy is increasing rapidly and the proportion of pensioners relative to the proportion of people in working ages is rising. From the fact that 20.1 per cent are now over 65 years of age, the proportion in 2070 will be 24.8 per cent. At the same time, the proportion between the ages of 20 and 64 decreases from 56.6 per cent to 53 per cent. At the current retirement age, this means that more and more people will benefit from the pension provisions paid by those in working age.



3. Number of inhabitants of different age groups 1970-2070 - retirement age 65 years



But another option is to gradually raise the retirement age. We have already seen that there are agreements on raising the target age to 66 in 2023, and 67 in 2026, respectively.

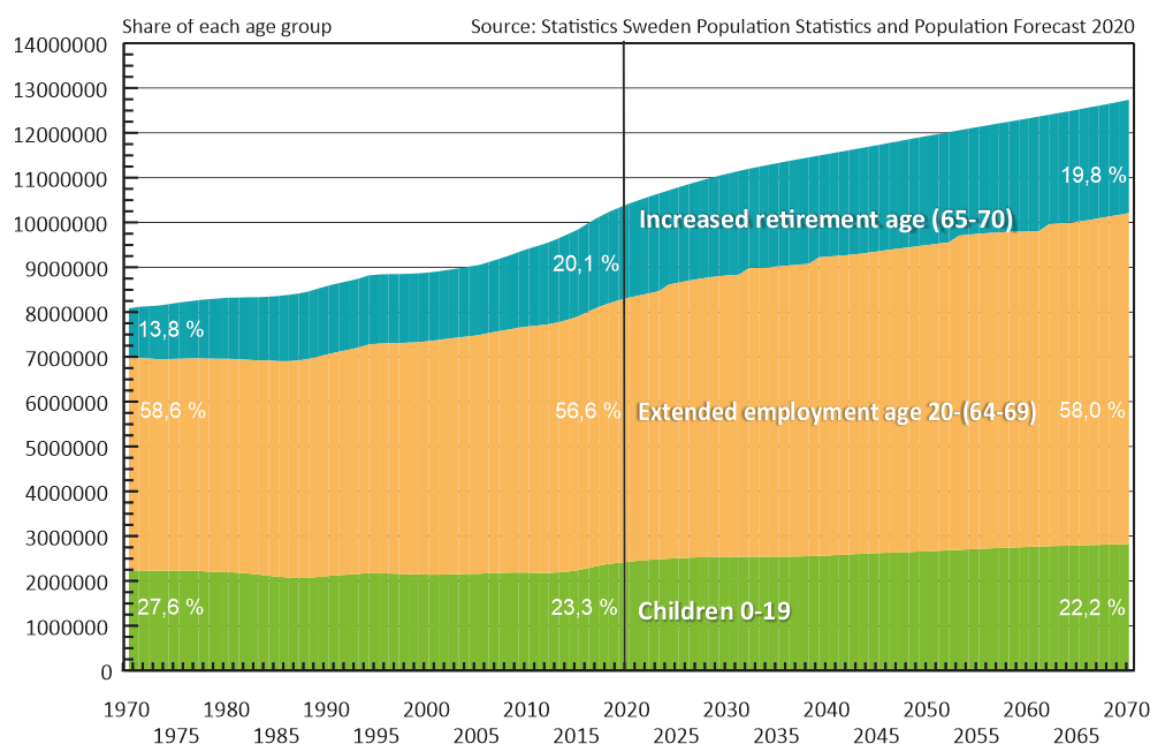
The Swedish Parliament has decided on a target age for pensions, which are regulated according to the development of average life expectancy. From 2026 onwards, the age limits in the general pension system expected to linked to the target age.

In the chart below, I have expected a continued increase in the target age to 68 in 2039, 69 in 2053 and 70 in 2062. These increases will make the relationship between the number of people in employment and pensioners more constant over the years.

The proportion of old-age pensioners will remain around 20% of the population and the proportion of people of working ages will increase by raising the target age so that this group continues to stay between 57% and 58%. The proportion of children will decrease slightly. These are moving figures because some groups choose to delay the withdrawal of their pension voluntarily, while others choose to go earlier than the set target age for various reasons.



4. *Number of inhabitants of different age groups 1970-2070 - gradually increasing retirement age*



Development of the dependency ratio

To illustrate the relationship between the groups being supplied and those who are to work for everyone's livelihood, the concept of **the dependency ratio** is usually used. This relationship is usually defined differently internationally and often very carelessly. Some sources only talk about the proportion of older people in relation to the proportion of people in work, which is also defined very differently.

In international statistics, a common age measure of working ages is usually 15-74 years old. In other words, this includes a lot of young people who study and who sometimes extend their study funds with holiday work. It also includes a lot of people who have already left the labour market, even though the actual employment rate over 65 years of age is highly variable in Europe. The rate of labour force participation among women also varies greatly.

I will therefore define the dependency ratio in Sweden as the ratio between, the sum of the number of children aged 0-19, plus the number of elderly people aged over 65, plus the proportion of non-employed persons, divided by the number of employed aged between 20-64 years.

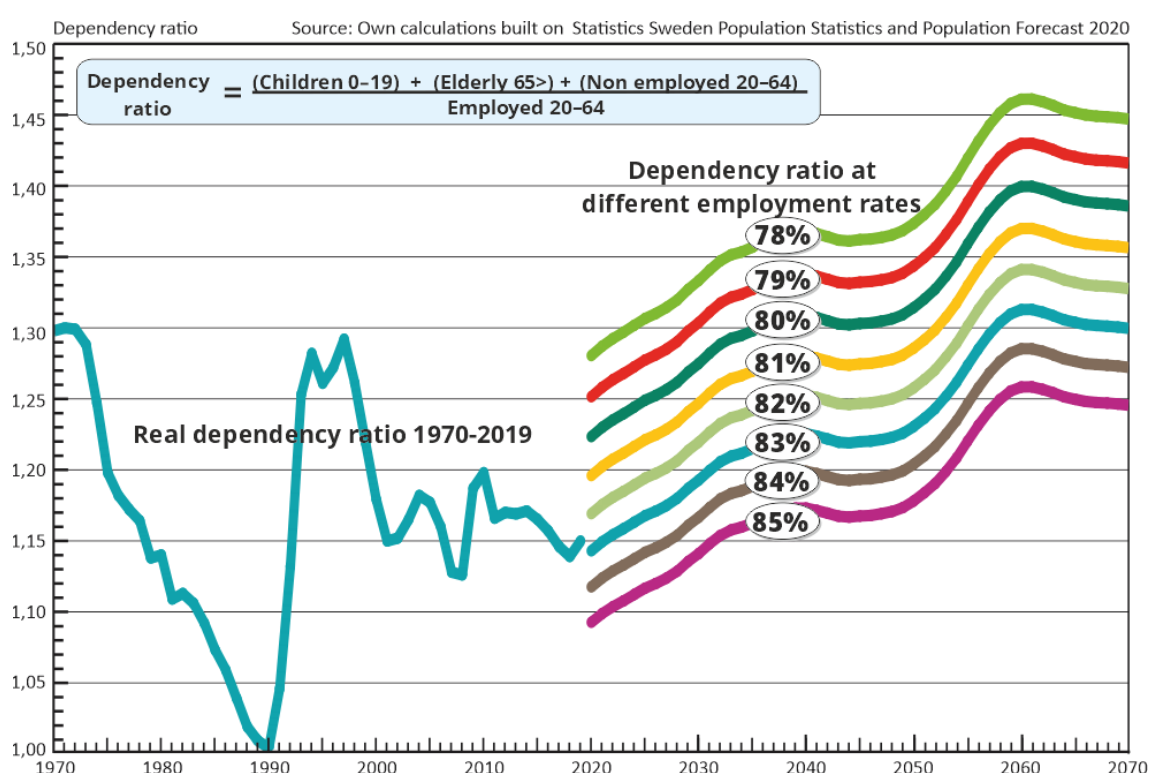
Development of the Swedish dependency ratio 1970-2070

In the chart below we can see how the dependency ratio has developed from 1970 to the present, and how it will develop over the next 50 years based on current rules

(including 65 years as retirement age) and the latest population forecast up to 2070 that Statistics Sweden has developed. The dependency ratio is calculated according to the formula shown in the diagram.

Here we can start from the development of the actual population and employment in historical times from 1970-2019. With the help of Statistics Sweden's population projections, we can also predict how many children and older people will be present in the future until 2070. On the other hand, we have no idea how many people of working age will be working, or out of the labour market. Here we need to make assumptions about the development of the dependency ratio at different degrees of employment.

5. Sweden's dependency ratio 1970-2070 for various employment options



During the 1970s and 1980s, the Swedish dependency ratio developed very positively. Co-taxation was abolished, childcare and parental insurance developed and enabled women to increase their participation in the labour market. More and more people were able to participate in the joint production of society's prosperity, while the number of workers had fewer and fewer to support.

The dependency ratio fell from 1.3 to 1.0. It was beneficial for childbirth, which was higher in Sweden than in other Western countries. It was also beneficial for the elderly, as their standard rose through the development of the pension system and care for the elderly. Together with better health, new medicines, surgical methods and more, the standard increase contributed to an increase in life expectancy. At

the same time, this means that more and more people would have to be supported in the future.

The major setback came with the 1990s crisis- a largely domestically created economic crisis. In a few years, the dependency ratio increased from 1.0 to 1.29. Employment between the ages of 20 and 64 fell from 87 to 75 per cent and unemployment increased from 2 to 11 per cent.

From 1999, the trend reversed. With the exception of the 21st century IT crisis and the financial crisis of 2008-09, the dependency ratio has stabilised, and we are currently at around 1.15. The number of employed persons has been around 83 per cent of the ages aged 20-64. That is a high figure internationally, but we shall examine the definition of this measure in more detail.

Assuming that the employment rate over the next 50 years would remain at 83%, we can see in the graph that the dependency ratio will still rise dramatically, first to a level of around 1.22 and later to a level of just over 1.3. This means that around 2060 Sweden would have a dependency ratio that even exceeds that of the worst crisis years of the 1990s. If the employment rate were to be below 83%, the difficulty of coping with welfare, i.e. the supply of children/the elderly/not employed, would increase dramatically. With an increased retirement age, the number of workers could increase and thus the number of jobs worked would also increase at a given employment rate.

These facts constitute the main argument for gradually raising the retirement age in Sweden.

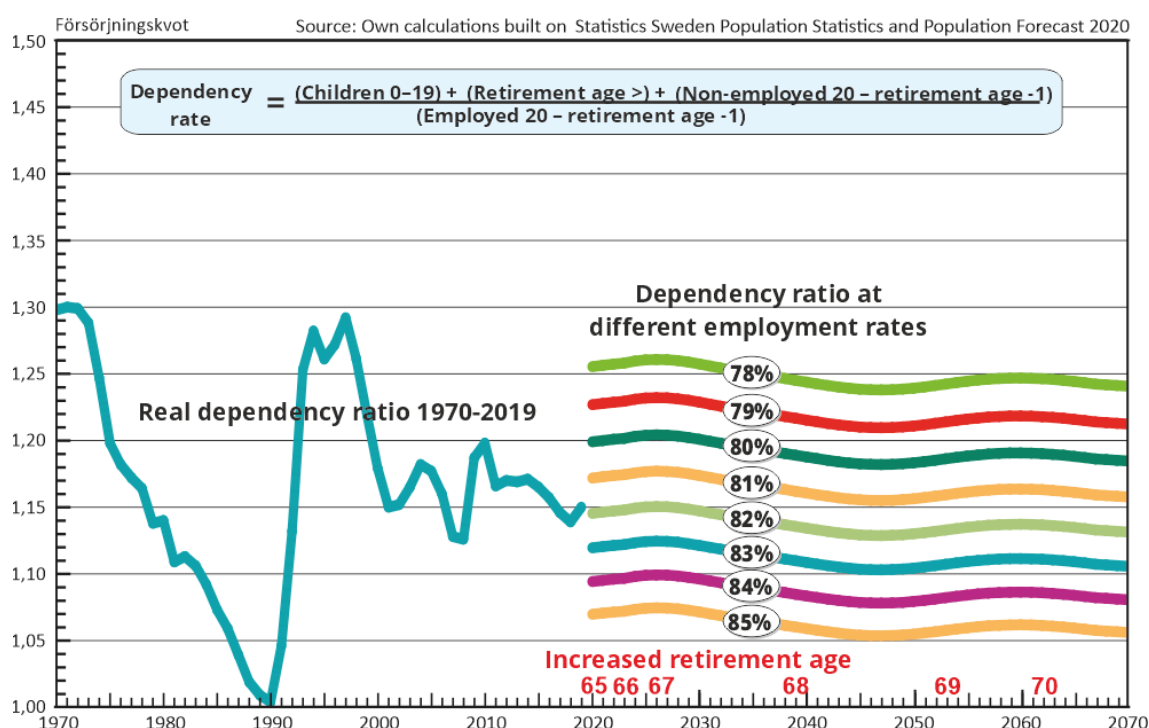
The dependency ratio at a progressively increased retirement age

In the next chart, I have used the same population projections as in the previous chart, but instead assumed a gradual increase in the target age for retirement as I have reported earlier, i.e. 66 in 2023, 67 in 2026, 68 in 2039, 69 in 2053 and 70 in 2062. With these increases, the relationship between the working age and retirement age will develop more harmoniously than in previous charts.

As the graph shows, the dependency ratio will already decrease in the late 2020s and then develop relatively evenly. The risk of a supply crisis like that of the 1990s no longer exists, even at a much lower employment rate.



6. Sweden's dependency ratio 1970-2070 at gradually increased retirement age



Statistically, therefore, there is a clear advantage in gradually moving to a higher retirement age. However, this description contains some problems, which need to be discussed further. One of these problems is the definition of **employment rate**. How do we actually measure the employment rate in Sweden – yesterday, today and in the future? How do we view the role of **children** in a society where, in order to cope in the increasingly advanced labour market, everyone should acquire at least upper secondary education and preferably complement lifelong learning for the rest of the world of work? And who do we count as **non-employed** (for example, unemployed, not in the labour force and early retirement) historically, today, and tomorrow?

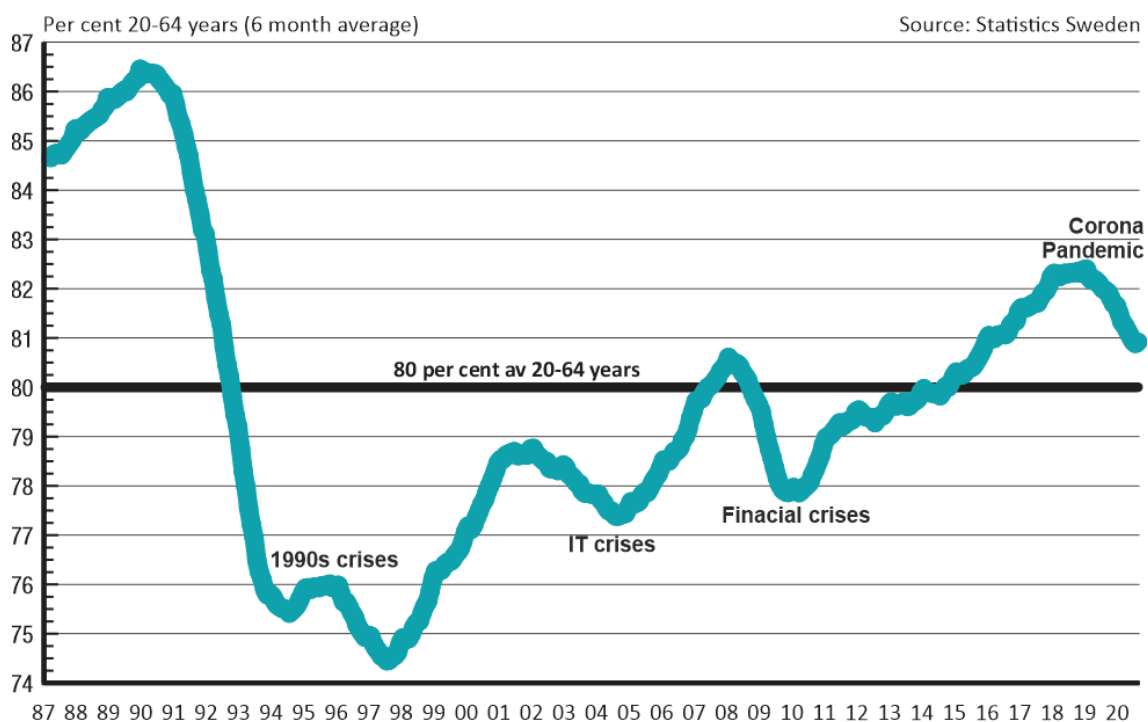
Employment rate

During the crisis of the 1990s, the Swedish employment rate reached a low level of just over 74 percent. From there, the level has risen by as much as 8 percentage points and was at the end of 2019 one of the world's highest with just over 82 percent. There have been some setbacks along the way, such as the IT crisis in the early 2000s and the Financial Crisis of 2008-09. Lately, the employment rate has fallen significantly in 2020 because of the Corona crisis.

To understand the current challenges of the Swedish pension system, it is important to **study how concepts such as early retirement, sick leave and unemployment have affected the employment rate and the dependency ratio.**

One phenomenon that affected the employment rate in the 1980s and 1990s was the increasing number of sick leave, especially long sick leave for 1 year or more. Since sick leave is included in employment, the employment rate could remain high (it was 86.5% just before the 1990s crisis, after which it fell drastically to 74.5%). During the crisis of the 1990s, maintaining employment with high sick leave became unsustainable and more and more people became unemployed. Absenteeism was statistically moved from the category of employed persons to the category of non-employed persons, i.e. from the denominator of the welfare ratio to its numerator.

7. *Employment 20-64 years January 1987 - August 2020*

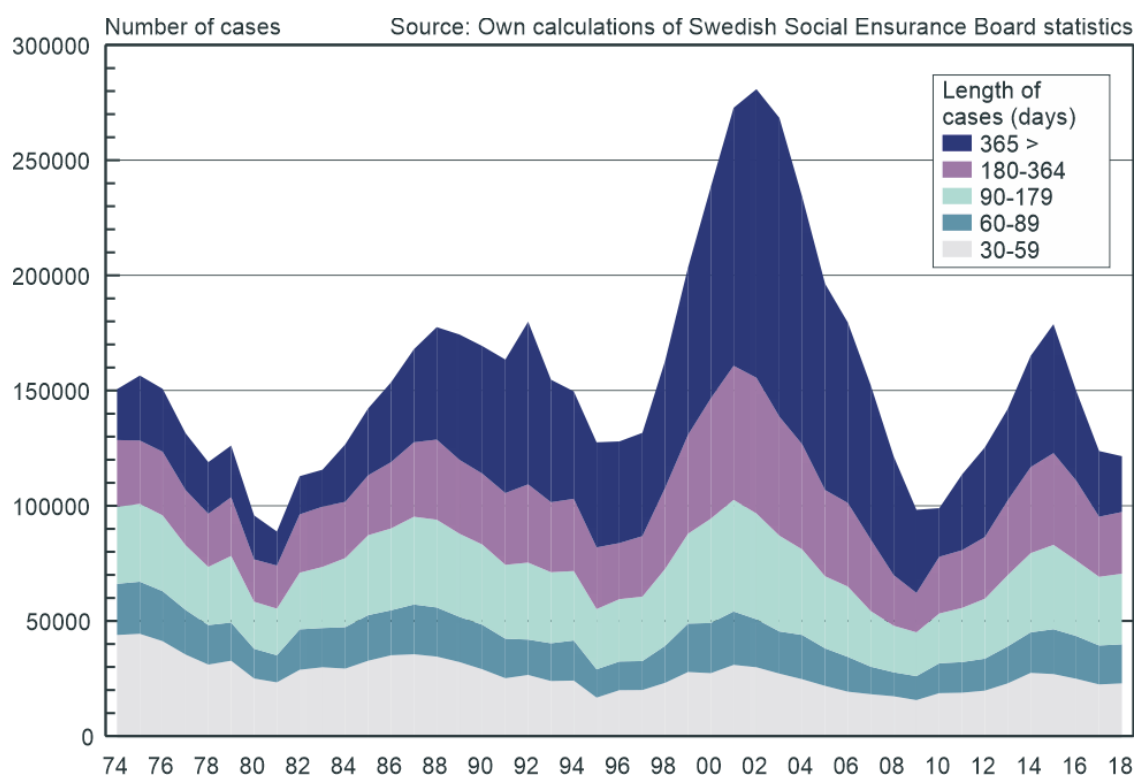


In 2002, sick leave reached new record levels. 45% of all ongoing illness lasted longer than 1 year. Hardly anything was done to get those absent to return to work. At this time, there was criticism that the employment rate was being maintained and unemployment was down with the help of health insurance.

Instead, the government began to retire early on those who had been long-term ill. Early retirement had long been used to regulate the labour market. The rules were relatively generous. On the one hand, you could receive an early retirement pension if you suffered from ill health, but employers and trade unions also ensured that the system could be used to get rid of older workers (58.5-year rule, where early retirement triggered unemployment until the 65th anniversary).

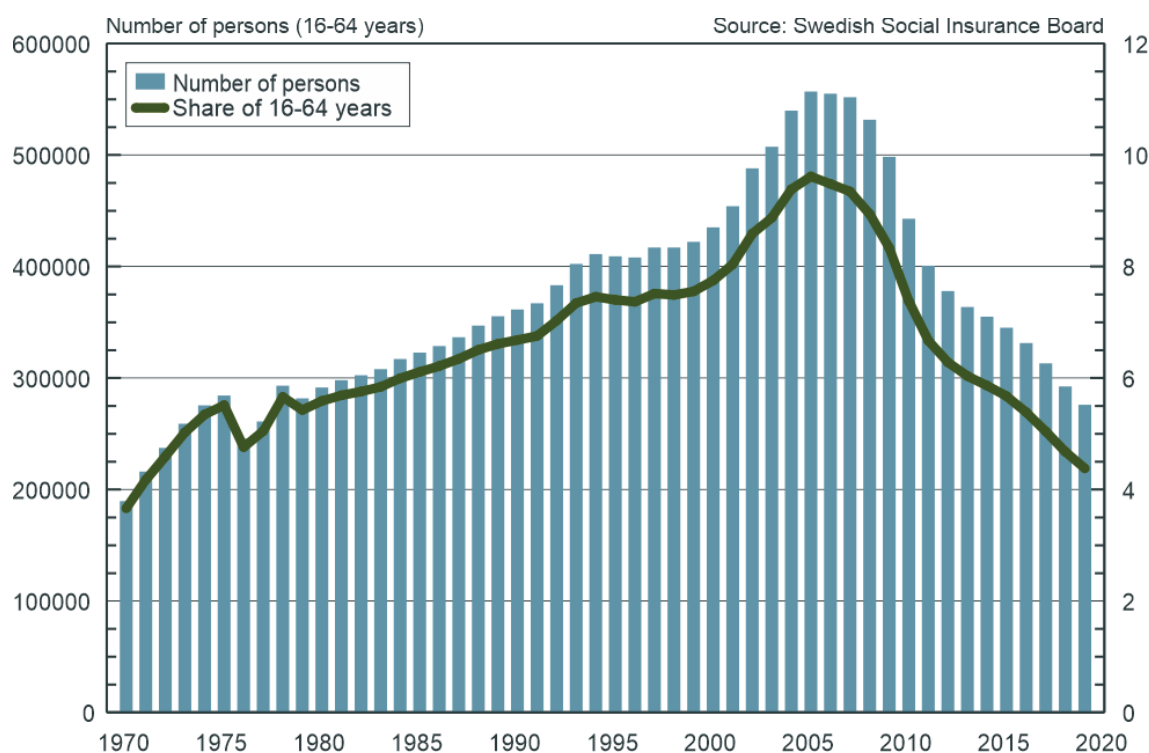


8. Ongoing illness after length of cases 1974-2018 30 days or more



In 2005, a peak was reached, when as many as 9 per cent of all 16-64 year old had taken early retirement. In contrast to sick leave, which meant a higher employment rate, early retirement meant that unemployment could be kept down, but that the employment rate was instead reduced.

9. Number of sickness and activity benefits 1970-2019



Rescheduling of sick leave, early retirement, and unemployment schemes

The fact that long sick leave and early retirement were used as regulators for unemployment and employment rates, was heavily politically criticised and was one of the reasons behind the resignation of the Social Democratic government in 2006. Instead, a nonsocialist Alliance government was created that for eight years came to radically tighten the regulations within large parts of labour market policy and not least the systems that today affect employment: sick leave, early retirement, and unemployment in Sweden.

The Alliance Government also tightened the regulations within health insurance. Those who had been ill for a long time now had to test after a certain period of time whether the disease was permanent or if they had the ability to work in other jobs in the labour market. Those who were considered to be able to work would be available on the labour market; in other words to seek employment.

Statistics Sweden's definition of employment in the Labour Force Surveys is very generous. One hour of work during the measuring week is sufficient for a person to be considered to be employed. On closer examination, it appears that a large proportion of the employed who have been discharged from health insurance and who for a period receive a subsidised job, work less than full time. This also applies to groups that have been long-term unemployed because they have never entered the labour market or lost their jobs in structural change and who lack the training required by the modern labour market.

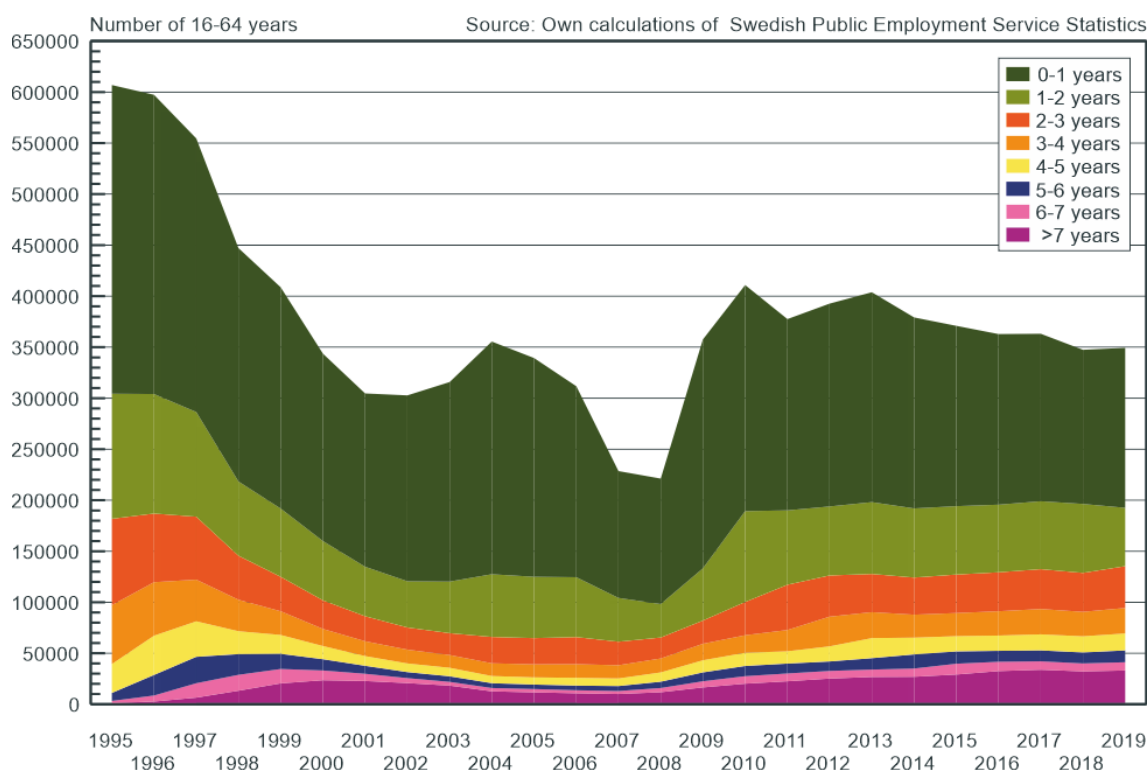
The regulations for early retirement have also been subject to tightening measures. From being part of the pension system, the system was renamed sick and activity compensation in 2003 and thus became part of health insurance. In 2008, the Alliance Government tightened the conditions for the right to these benefits. From the fact that the working capacity would be permanently or long-term impaired, the working capacity would be permanently impaired. The rules were tightened so that fewer and fewer people were granted sickness and activity compensation. The proportion with sickness and activity benefits (or previous early retirement) is currently the lowest since 1972.

The changes made to the sick leave system, sickness and activity compensation and unemployment insurance contributed to the increase in the number of unemployed. In 2019 unemployment was as high as in the final stages of the 1990s and thus one of the highest in Europe. At the same time, the employment rate developed to be among the OECD's highest. The aim has been to create higher incentives for the unemployed to actively seek employment. To increase incentives, the regulation concerning time with unemployment benefits and the amount of benefits were tightened. Many people who are currently unemployed for a long time have benefits that are on a par with social assistance.



The changes in the regulations implemented by the Alliance Government have largely remained during the Social Democratic minority governments that took office after 2014. Total unemployment has fallen as the economy developed positively after 2013, but has not yet reached the levels prevailing before 2006.

Diagram 10 Openly unemployed and in activity support programs 1995 - 2019 after enrolment period in the last 10 years



However, the increased efforts did not lead to a better quality of labour market policy measures, such as more training to achieve sustainable employment. According to Adnan Habibija, a Union-economist who works at LO, quality has rather fallen in the 21st century: ²

"Sweden was for a long time the country with the highest ambitions for active labour market policy. That is no longer the case. During the 21st century, Sweden has not devoted more resources than comparable countries. A policy aimed at equipping and enhancing skills to improve job-seekers' opportunities in the labour market has been largely replaced by policies to increase the search intensity and labour supply. In addition, there has been a unique change in the Swedish program mix, where more resources are spent on employment support and less on training efforts. There is much to suggest that these trends will continue during the 2018-22 term."

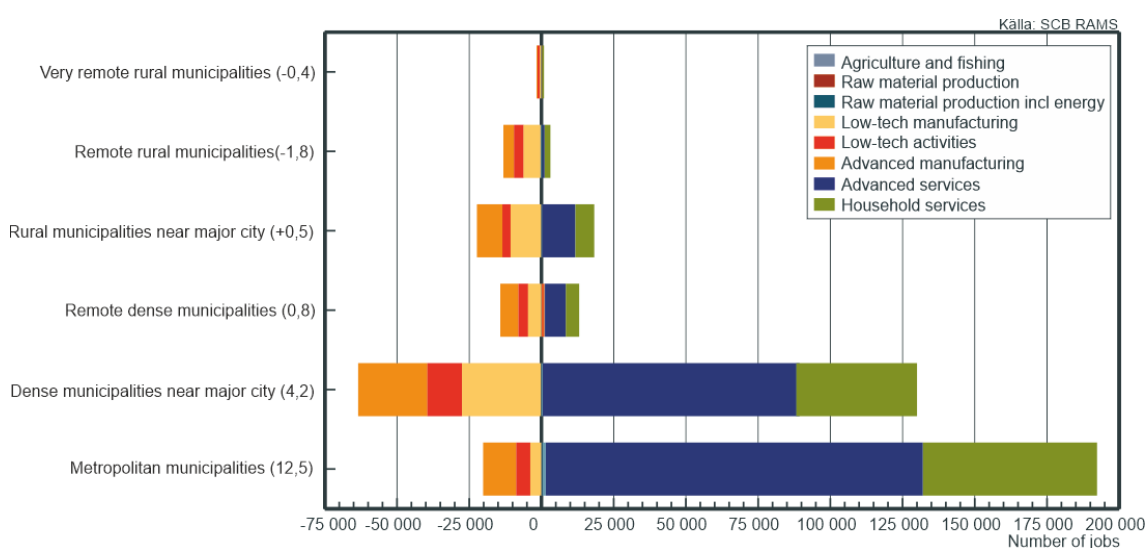
It is important to point out that the labour market itself has undergone major changes in the 21st century. While there have been significant reductions in low-tech manufacturing and production of raw materials, advanced services (e.g.

² Adnan Habibija, *What happened to the active labour market policy?*, *Economic Debate*, 6, 2020

school, health and social care and business-oriented services) have grown as well as trade, construction, and transport activities. The group of unemployed people has also changed character, not least through increased immigration and an increased need for Swedish education. At the same time, labour market education efforts have shifted from short courses to more advanced education, such as higher education and skills development.³

The graph below shows how the Swedish labour market changed by municipality type and economic group during the years 2007-2014. The figures by municipality type show the total change during these years.⁴

10. *Changes in the labour market 2007-14 by municipality type and economic group*



The skills-enhancing efforts are largely reserved for those who have been unemployed for a short time. The longer unemployment lasts, the lower the level of education, and the higher the level of measures aimed at increasing search activity to increase competition and to reduce the pressure on wages. The measures are largely administered by procured employment services on the private market.

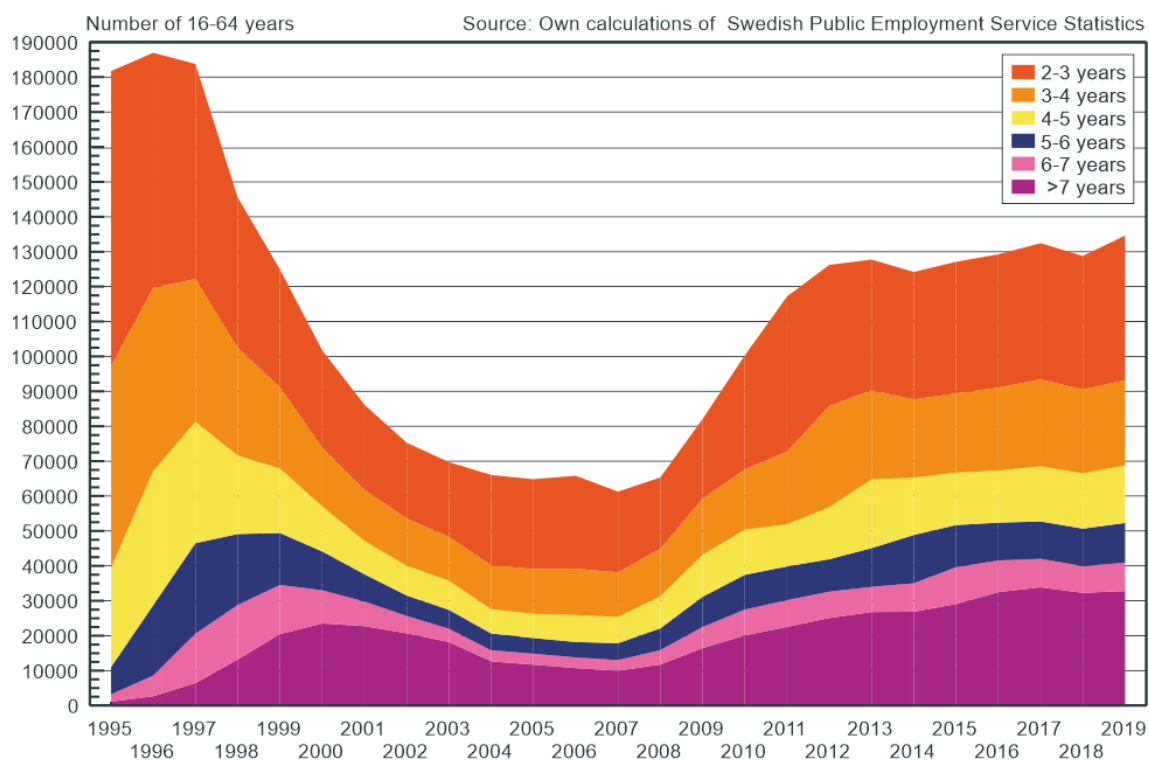
If we clear Figure 10 from those groups that have relatively short-term unemployment, 1-2 years, and instead focus on groups that have been unemployed for more than 2 years, 3 years, 4 years, 5 years, 6 years and 7 years over the last 10 years, we can see that the number of unemployed continues to rise despite the prolonged boom that prevailed until the end of 2019. These groups are the subject of massive labour market policy measures both by the Employment Service and the procured companies that provide various programme activities. When the programme time ends, a return occurs in the layer the individual was in before. Both under such programmes with financial support or other subsidised forms of

³ Jan Edling, *The Swedish labour market for three decades, with an outlook 2050*, The Swedish ESF Council 2018.

⁴ Jan Edling, *The Swedish labour market for three decades, with an outlook 2050*, The Swedish ESF Council 2018

employment, jobseekers are considered to be employed, even if the measures are only limited in length and working time.

11. *Openly unemployed and in activity support programs for more than 2 years 1995 - 2019 after enrolment period in the last 10 years*



This group of unemployed people currently amounts to just over 130,000 and is growing steadily. The Corona pandemic has not made it any easier for this group of long-term unemployed.

Summary

In 2019, Sweden had Europe's highest employment rate, but also one of the highest unemployment rates in Europe. The effective use of subsidised jobs for the unemployed helps to maintain a high level of employment at a high level while reducing the average employment rate per person employed.

This has a major impact on the flat-rate calculations that we previously made of the Swedish dependency ratio. Turning to a more precise measure of employment, which counted the number of hours worked per person, greater efforts would have to be made to define the number of hours and people required to cope with the supply of children, the elderly and the inactive.

Groups at risk of a low pension

This section deals with groups who are at high risk of receiving a low pension once it is time to leave working life. We have already mentioned the group of long-term unemployed (more than 2 years of unemployment in the last 10 years), which is a very mixed group of people with different levels of education, people who have been excluded from structural change, disabled and insured by health insurance. Together, they accounted for 38 per cent of all unemployment at the end of 2019. Only one third of the long-term unemployed were born in Sweden, while 63% come from outside Europe. 71% of these come from countries belonging to the latest wave of refugees (Afghanistan, Syria, Iraq, Iran, Eritrea, and Somalia).

Immigrants who come to Sweden somewhat later in working life, the risk is generally a low pension because they have a short period of service, both in the public pension and occupational pensions, even if they get work.

Newly arrived refugees

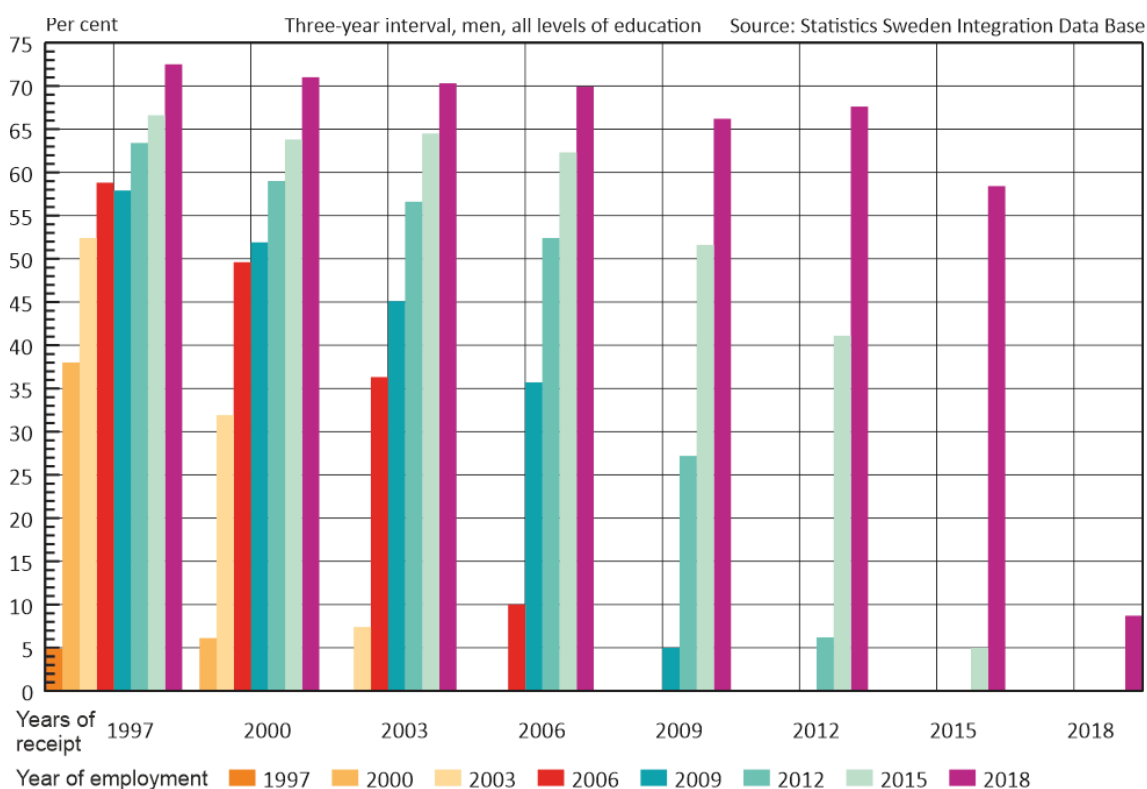
Newly arrived refugees are at high risk of being excluded from the labour market, which limits their ability to earn pension entitlements. The vast majority will also not be able to earn very many 40-part rights under the right of residence. The following graph shows how long it takes for the employment rate to increase among refugees received by the municipality. To make the graphs more transparent, I have only reported the employment rate achieved every three years.

Men who came to Sweden in 1997 hardly got into work in the first year of stay. After three years, they had achieved an employment rate of 38%, etc. Only in 2018, after having stayed in Sweden for more than 20 years, this group was able to reach an employment rate of just over 72 percent (compared to those born in Sweden whose employment rate was 83 percent). As you can see, women are taking longer to increase their employment rate, but after more than 20 years they have reached the same level as men.

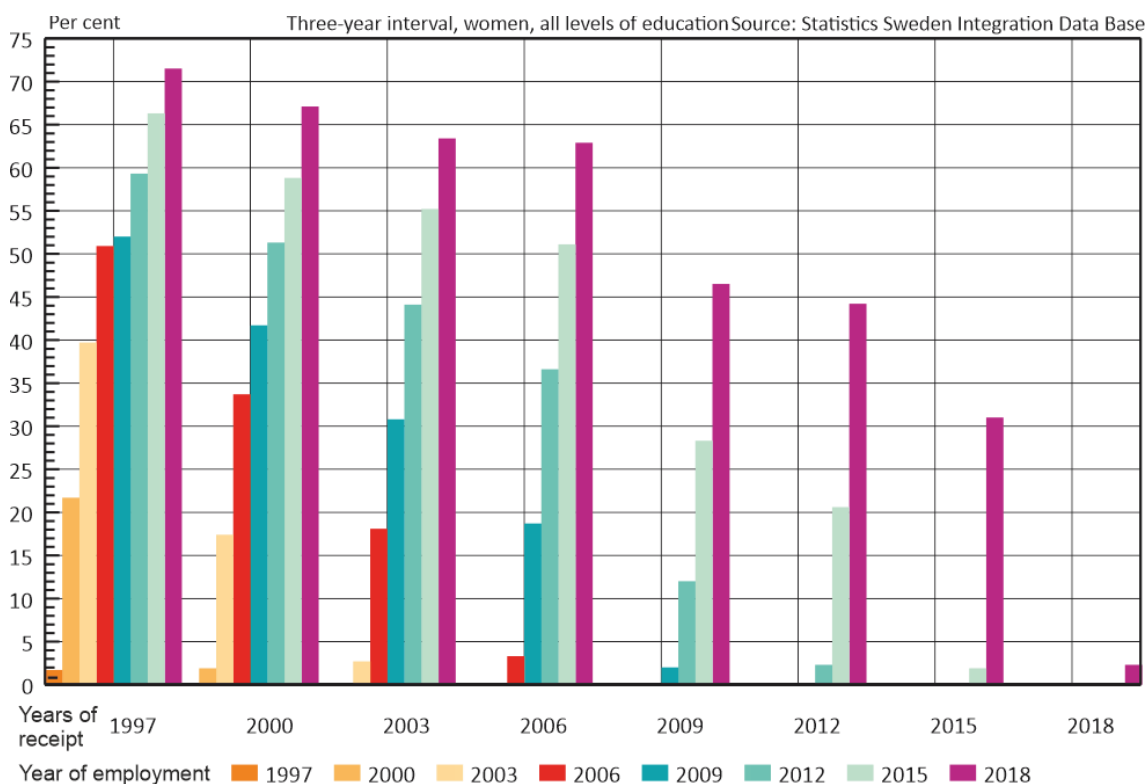
Please note that the two diagrams below reflect the situation of newly arrived refugees. The picture will be completely different if we look at all immigrants, a large part of whom has a good education, great opportunities to learn the Swedish language and to blend into the labour market.



12. Employment rate of refugees received by municipalities, men 1997-2018



13. Employment rate of refugees received by municipalities, women 1997-2018



Atypical contracts



According to the Swedish Mediation Institute (2018), the proportion of all employees on the Swedish labour market covered by either a regular collective agreement or a hanging agreement is approximately 89 percent. This means that around eleven percent of all employees in Sweden are *not* covered by collective agreements. All of these are found in the private sector as all employees in the public sector are covered by contracts. To calculate the proportion of all employed persons not covered by collective agreements, we need to add entrepreneurs, who account for about 10% of employment. This means that including entrepreneurs, around 20% of all employed persons are not covered by collective agreements.

Among other atypical forms of employment, the largest group of fixed-term workers (approximately 15 per cent of all employed persons in Sweden) are employed. Then there are those who have several different jobs or who are both entrepreneurs and employees (just under 9 percent). Temporary agency workers and self-employment enterprises make up only a small proportion, about 2 per cent of employed persons. The most difficult to calculate are those who work black, but based on international studies, between 2 and 3 percent are considered to work black in Sweden.

1. Compilation of atypical forms of employment⁵

Type of employment	Collective agreements	Employment contracts	Permanent employment	One and the same employer	Share of employed persons
Employees without collective agreements	No	Yes	Yes or no	Yes or no	9,7
Entrepreneurs	No	No	No	–	10,0
Fixed-term employees	Yes or no	Yes	No	Yes or no	15,1
Temporary staff	Yes or no	Yes	Yes or no	No	1,6
Self-employed	No	Yes	No	No	0,7
Several pursuits	Yes or no	Yes	Yes or no	No	8,8
Undeclared work	No	No	No	–	~ 2-3

⁵ Labour Market Economics Report, Labour Market Economic Council 2018.



It would be wrong to say that all these groups are at risk of being exposed in the labour market. However, the greatest attention in recent years has been to the so-called **gig economy**, which is considered by many to replace parts of the traditional labour market. Other names, such as **the sharing** and **on-demand economy**, are also used to describe this type of work. The phenomenon is based on the fact that, instead of taking up employment with a company that manages the procurement of assignments, workers themselves find and perform work for clients.

According to the Labour Market Economic Council, there are no strong indicators in the statistics that atypical forms of employment would have so far significantly squeezed out traditional permanent jobs.

Various studies taken into the Labour Market Economic Council show that fixed-term workers are generally paid less than their permanent colleagues. They have a lower bargaining power and less access to workplace training.

Studies also show that temporary agency workers' pay conditions vary greatly between different industries and in comparison, with permanent employees in the corresponding occupations. Although the staffing agreements largely regulate pay and employment conditions in Sweden, the risk of losing employment appears to be high in a recession, when temporary workers are more loosely linked to rules for notice and salary guarantees than permanent employees are.

Self-employed workers are not covered by collective agreements and are not represented by any trade union. In labour law, self-employed persons are in a grey area between employed and self-employed persons. Unemployment funds have had difficulty determining whether self-employed persons should be assessed as entrepreneurs or workers.

Need for reform

The general Swedish pension system, introduced in the late 1990s, is based on the principle of life income. Part of the income up to a certain level would be allocated to the pension system to provide an income pension and a premium pension. When the scheme was introduced, it was promised that the general pension would be about 60% of the final salary.

However, this was not the case. For many, the pension has become about 45 percent of the final salary. One main explanation is that life expectancy has increased faster than was expected when the system was created. Another explanation is that, at certain times, economic development has developed worse than would have been predicted on a linear basis; for example in the so-called IT crisis of 2001 and in the financial crisis of 2008-09.

This is the starting point for reform work to restore a pension system that is both financially stable and which provides pensioners with decent pensions. The Swedish



Government, the so-called pension group and the government and parliament have a major task ahead of them to reform the system to meet the demands of employees and the financial security of pensioners.

Here are some key points in such a reform effort:

Raising the retirement age

- Some decisions have been taken to increase the target age of old-age pension to 66 in 2013 and to 67 in 2026.
- The Swedish Parliament has decided on a target age for pensions, which is regulated according to the development of average life expectancy. From 2026 onwards, the age limits in the general pension system is expected to be linked to the target age.
- The increasing target age will be required in order to maintain a balance between the proportion of pensioners and the proportion of professionals in the coming years up to 2070, which could also create a long-term balance in contributions and payments to the pension system.

An increase in the real employment rate

- There is considerable scope for an increase in contributions to the pension system if every effort is made to refine the measurement of the employment rate and to take advantage of all the possibilities, for more people who are currently temporarily or long-term unemployed, or who are neither in employment nor studying to enter jobs.
- The definition of employment of labour force surveys needs to be refined. One hour of work during the measurement week is sufficient for a person to be counted as employed. This leads to excessive confidence in the reliability of the dependency ratio.
- We have also seen that the establishment of newly arrived refugees in the labour market takes time. Much can be done here to shorten that time by better education in the Swedish language, better school and vocational training and breaking the segregation that locks immigrants into residential areas where pupils find it difficult to cope with school education and where adults' contact with the labour market is severely limited. ⁶
- Sweden has unemployment above the European average. An important explanation for this is that health insurance and sickness and activity compensation (previously early retirement) have been eroded so that many have been insured or denied access to these schemes. Many who in previous regulatory systems would have been entitled to these have instead been counted as unemployed, and (as we have shown in this writing) largely become

⁶ Jan Edling: *The suburbs that Mother Svea forgot*, ABF, Flexicurity and Verdandi 2016.



long-term unemployed for 2-7 years of the last 10 years. The government has launched an investigation to review current rules, but there are no proposals yet. It is important that these investigations be used as a basis for future legislative work.

- A regulatory framework for labour migration might also help to lower unemployment and thus improve the Swedish dependency ratio. This is especially true for occupational areas, without higher education requirements and where there is no labour shortage
- The Swedish trade union movement's acceptance of the demand for a gradually increased retirement age has been made with one very important caveat: that the Parliament should fund large **investments in the working environment**, so that more people actually also have the opportunity to work longer. In this area, nothing has happened in principle. The Swedish social partners have jointly signed a European Framework Agreement on Active **Ageing**, which requires important measures to facilitate the active participation and retention of older people in the labour market until the legal retirement age. The Swedish trade union movement has also called for age limits in social security systems to increase in line with the retirement age. In this area, several studies have proposed higher age limits, but no policy proposals have yet been made.
- An important reform of the labour market is the need for skills development for employees, a lifelong learning that strengthens the individual's ability to remain in the labour market when structural change inexorably makes old knowledge obsolete. From a socio-economic point of view, the employer's need for new knowledge should not be met solely by employing newly trained young people. Those who are already in the labour market must also be given a chance to build on their knowledge, otherwise there is a great risk that we will perpetuate a society where unemployment is high. The social partners have been discussing for a long time the need to supplement the conversion agreement with increased elements of skills development as an alternative to retirement. Discussions have also taken place within the framework of the Comprehensive Main Agreement negotiated between the social partners under the threat of legislation. At the time of writing, however, nothing is clear, but there is no doubt that in a modern labour market there is a need for a reform in the field of skills development. Such a reform should have the character of a tripartite solution, in which workers, employers and the state share the costs of lifelong learning.⁷

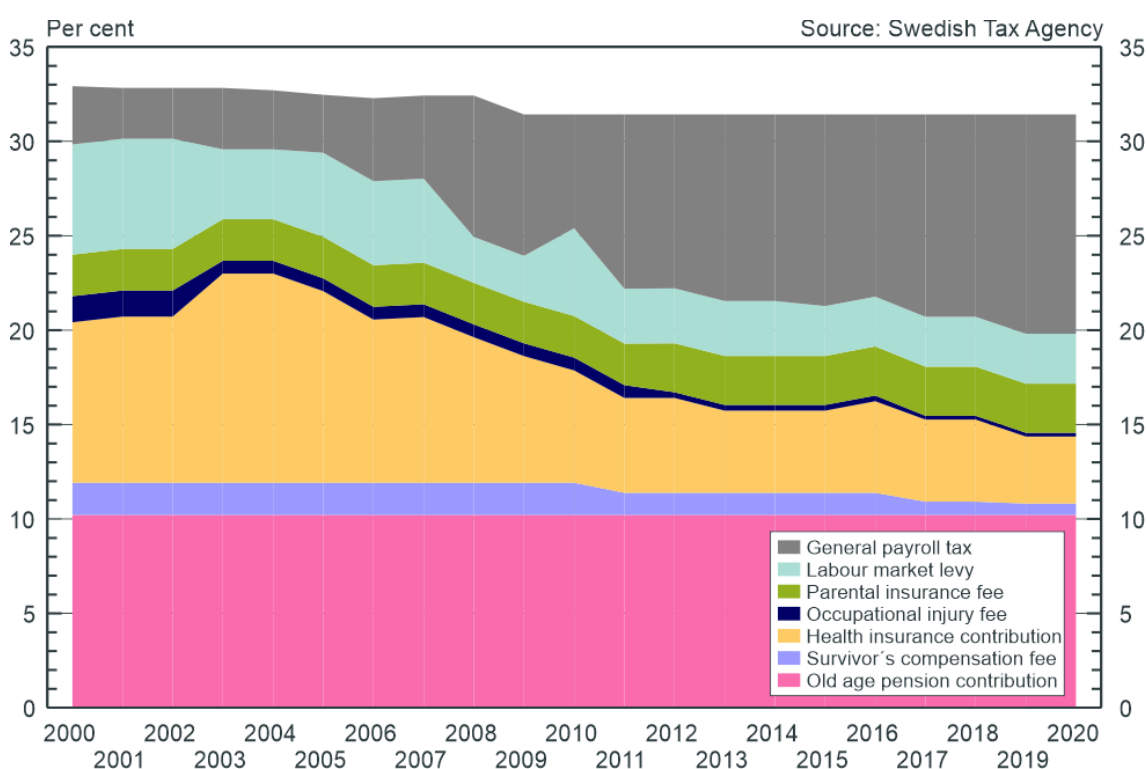
⁷ Jan Edling: Competence development – a necessity in the rapid structural change, <http://www.flexicurity.se/blogg/kompetensutveckling-en-nodvandighet-i-den-snabba-strukturumvandlingen/>, Flexicurity 2015



Under-financing of the pension system

- The provisions for the old-age pension scheme are part of the so-called employer's contributions, which consist of various social security contributions and a general payroll tax. Since 2000, the old-age pension contribution has been 10.21 per cent of gross earnings. No attempt has been made to increase this fee even though the contributions are not enough to maintain the level of outgoing pensions. As shown in the chart below, all other social security contributions have been reduced since 2000. At the same time, the general payroll tax, which goes directly into the state budget without further clarification, has gradually increased. Since the employer's contribution has remained close to a constant level, this has meant that the general employer's contribution has increased from 3.09% in 2000 to 11.62% in 2020.

14. Contributions to employer's contributions 2000-2020



When the government announced its proposal on the income pension supplement, it was said that the reform would be financed from the state budget, but not through an increase in the old-age pension contribution. Instead of a new principle, which deviates completely from the original funding model created in the new pension system. It would be appropriate to finance all future necessary reforms of the old-age pension scheme within the framework of the old-age pension contribution, which is thus increased in order to provide room for the proposed income pension allowance and other increases in old-age pension income. Otherwise, the various additions that are created will be specific budget lines, which can easily be removed by future governments. An increase in the old-age pension contribution should be made by a corresponding reduction in the general payroll tax.

The proposed income pension supplement

- The government has proposed several measures to strengthen the economy of pensioners. As I have previously told you, the pension is increased by a new benefit called the income pension supplement. The aim is to increase the pension for people who have worked a whole life with low pay. The supplement shall be paid up to SEK 600 per month for pensioners who have an income-based general old-age pension of between SEK 9,000 and 17,000 per month. The new benefit is expected to increase the disposable income of 55% of persons over the age of 65. The proportion is slightly higher among women than among men, 62 per cent compared to 48 per cent. The supplement is designed so that it does not affect the payment of other pension benefits such as the guarantee pension, housing supplement and old-age support. Nor are fees for interventions under the Social Services Act, such as the home care fee, to be affected by the supplement. The provisions are proposed to enter into force on 1 February 2021 and will be paid from 1 September 2021. The cost is estimated to be just under SEK 2.0 billion in 2021. For 2022 and 2023, the effects on the state budget are SEK 6.0 billion and SEK 5.7 billion, respectively. The new proposal is linked to several problems of principle. On the one hand, it is contrary to previous principles of a uniform income pension, i.e. it is not given to everyone with earned pensions under the ceiling, but only to pensioners in a certain range. It may have the consequence that the parties sign a special agreement to compensate groups that do not receive the supplement. A breakthrough for this principle means that the governments transfer the financing of parts of the income pension to the parties to negotiate, just as the State has previously diverted the financing of, for example, health insurance to the parties. It is difficult to see the future consequences of such an intervention, which may be followed by more. There is a possibility that the state will only take responsibility for the poorest pensioners, while the social partners will have to take increasing responsibility for the pension system. It is appropriate to point out here that parties in different parts of the labour market are well placed to create such agreements. There is thus also a risk of further increased inequalities between different groups in the labour market.

Recommendations and Guidelines for a Public Pension System

Although it is positive that we live longer, there are large variations in life expectancy and in opportunities to prolong working life, which are due to socio-economic factors and differences in working conditions and working environment.

From a Trade Union-perspective we take a long-term positive approach to active ageing and intergenerational solidarity on which we built our position to engage in the negotiations for the European Social Partners' Autonomous Framework



Agreement on Active Ageing and An Inter-Generational Approach signed in 2017 and currently under implementation across Europe.

The added value of older workers must be better and fully assessed and appreciated by Social Partners. The potential of experienced employees should be properly used (e.g., mentoring). It seems particularly important to emphasise the benefits that the company can derive having a diverse team (e.g., in terms of age), whose members have different life experiences and competences. The implementation of age management however requires employers to change the way they consider older employees. It is important to recognise their potential and competences that are valuable from the company's point of view.

From our perspective the labour market is dynamic and with an ongoing creation of new jobs. We therefore do not believe that higher retirement ages would be problematic through making it more difficult for the unemployed, including youth unemployed, to find work, although there might be some difficulties for individual companies, or on limited markets.

General pension schemes (Pillars I)⁸ need to be both financially stable and capable of paying out adequate pensions. Financing is dependent on employment, which places demands on the quality of work and working conditions. We support the Swedish pension agreement reached together with launching the current state pension. The State pension is an autonomous pay-as-you-go system, financed by contributions and not dependent on state budget. Nor is it dependent on fluctuations in political views. Generally, the level of pension contributions needs to be stable.

However, concerning the current situation in the Swedish state pension, where the level of pension compared to previous income is declining more than expected due to increasing longevity expectations, pension contributions need to be increased.

Preserving the pension-level also requires raised age limits for drawing pension. This report contains calculations showing that a gradual increase in the pensionable age from 65 to 70 years over the next 50 years would be enough to create a long-term balance.

However, an extended working life presupposes that all employees, regardless of circumstances will be given real opportunities to be able to work longer. Therefore, raising age limits requires improvements in working environment and flexibility in working hours together with greater opportunities for skills development, further education and change of jobs or industries for professionals throughout working life. This is for as many people as possible to be willing and able to work at older ages. An automatic enumeration of the retirement ages is considered unrealistic without these actions taken.

Adjustments of age limits in the public pension system also require corresponding adjustments of age limits in systems for social insurance, social protection and unemployment benefits to ensure adequate protection for those who continue

⁸ The discussion on how a public pension system ought to be designed is largely based on TCO's Program for Pension Policy (TCO's pensionspolitiska program, 2019, www.tco.se).



their activity in the labour market until they reach the age limits for drawing pension.

But, as mentioned above, it must be recognised that the nature of work influences the life expectancy of workers. Workers who perform arduous tasks, are not physically able to remain in their jobs until pensionable age, often far from. These workers can often not retire in dignity but need to resort to social benefits until they are entitled to state pensions. Workers performing arduous jobs or who otherwise for medical reasons can't work longer, must have the possibility to retire earlier than the official pension age without losing full pension rights.

A public pension system needs to be provided with a minimum pension level. Those who, for various reasons, have had little or no income during life, should generally be entitled to a guarantee pension designed to give livelihood at a reasonable level. The guarantee pension is in Sweden currently linked to price-index, but rather should be linked to income development.

On the other hand, in order maintain the legitimacy and confidence in the general pension system, the income related components need to have as large an impact as possible. This also highlights the need for increased pension contributions.

Considering parts of the public pension contributions that are invested on individual fund accounts, it is important to monitor investments' development and safeguard savers against fraud and the like that could cause huge losses. Funded investments generally develop faster than those placed, according to the Pay-As-You-Go principle, thereby increasing their shares. As a result, the overall risk increases. The risk is borne by the saver. Therefore, funded systems should include traditional life insurance with a guaranteed level as a saving option and there ought to be a deposit guarantee in case savers suffer from fraud.

When it comes to supplementary pensions, we prioritise collectively agreed occupational pension systems for which the social partners are responsible. Supplementary pensions should not serve as compensation for a poorly functioning general system.

