

Swedish Institute for Social Research (SOFI)

Stockholm University

WORKING PAPER 1/2006

**THE SWEDISH WELFARE STATE:
THE ROLE OF SUPPLEMENTARY COMPENSATIONS**

by

Gabriella Sjögren Lindquist and Eskil Wadensjö

THE SWEDISH WELFARE STATE: THE ROLE OF SUPPLEMENTARY COMPENSATIONS^λ

Gabriella Sjögren Lindquist[#] and Eskil Wadensjö^{*}

February 2006

Abstract

The Swedish welfare state has a social security system that covers many forms of income losses and gives a high compensation. Compensation is given for loss of income due to sick leave, parental leave, disability, work injury, unemployment and retirement at old age. But there are also complementing compensation systems. The most important ones are those decided by collective agreements between unions and employer associations. They are sometimes organized as an insurance, in other cases as an agreement that the employer should pay the compensation. There are also other forms of complements than those based on collective agreements, for example complementing unemployment insurances for members of unions.

Even if the complements are organized in different ways, they add to the social insurances in more or less the same way. They give an addition under the ceiling in the social insurance systems, they give compensation over the ceiling so that they more or less eliminate the effects of the ceiling, and they lengthen the compensation period in some cases. This means that the consolidated welfare state differs in a systematic way from that which is determined by the Parliament. In this paper we describe the differences and discuss the factors that determine the differences between the two welfare states – the traditional one and the consolidated one.

^λ We are grateful for helpful comments at the conference “Welfare State Change. Conceptualisation, Measurement and Interpretation” at St. Restrup Herregaard, Denmark, 13-15 January 2006.

[#] Swedish Institute for Social Research, Stockholm University, SE 106 91 Stockholm, Sweden, gabriella.sjogren.lindquist@sofi.su.se

^{*} Swedish Institute for Social Research, Stockholm University, SE 106 91 Stockholm, Sweden, eskil.wadensjo@sofi.su.se and IZA, Bonn.

1. There are many forms of income compensation¹

When the Swedish welfare state and the benefits that provide compensation for various types of loss of earnings is discussed and analysed, interest is almost entirely focused on the social insurance schemes. However, there are many other forms of benefits that supplement the Swedish social security system. The most important ones are those determined by agreements between the social partners. The combined payments from the many types of supplementary benefits make up substantial amounts. It is therefore natural to ask why these benefits have not previously attracted much attention in the Swedish public debate and among researchers.

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

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

A third explanation is that the information about the supplementary benefits is often insufficient or not given the same attention as the social insurance schemes. The social partners provide information in various ways to their members and, to some extent, the general public as well, although this information is often difficult to spread.² Above all, the information is partial – for instance, it only applies to a certain sector and not generally. Information on trade union websites about various member and group insurance schemes is

¹ This paper builds on Sjögren Lindquist and Wadensjö (2005). An updated English version of that book will be published in 2006.

² A recent example is the agreement on pensions for employees in the municipalities and counties reached in December 2005. It is a major change compared to the earlier scheme but received very little media attention.

often only available to those who are members of the union. For example, it is difficult for a person who is thinking about changing to a new job that is covered by a different collective agreement and another trade union, to find out how benefits will change in the event of different types of loss of income.

In this paper, we will provide a more general picture of these other forms of benefits that supplement the social insurance schemes and how they coincide with and strengthen the Swedish public social insurance system. It should be kept in mind that these types of supplementary benefits change over time, but the main features of the different systems remains the same in most cases.

2. Benefit forms

The benefits that are now often regarded as supplementary benefits have a longer history in many cases than social insurance benefits. Pensions and benefits for illness, occupational injury and unemployment existed before the introduction of the social insurance schemes. To some extent, it can be said that these other forms of benefits were predecessors to the social insurance schemes and that they have influenced the design of these schemes.³ On the other hand, when the social insurance schemes were introduced, they affected the benefits that previously existed to a very great extent. Subsequent changes in social insurance schemes have also led to changes in the supplementary benefits.

Agreements between the social partners on supplementary benefits can be reached on the introduction of an *agreement-based insurance scheme*, and on payments to be made by the employer – *agreement-based benefit scheme*. An agreement-based insurance means that contributions are paid to an insurance company which then pays the benefit when a person is eligible under the rules that apply for the insurance. However, an agreement can also mean that the employer undertakes to pay the benefit (or that some other institution pays the amount and the employer pays this institution) when someone is entitled to a benefit according to the conditions of the agreement.

Agreements can be entered into at various levels: between central organisations, between bargaining cartels, between national trade unions and employer organisations, and between a local trade union and an employer. Benefits decided upon through agreements of this kind do

³ See Edebalk, Ståhlberg and Wadensjö (1996) and Rein and Wadensjö (1998) for a general discussion of the interaction between social insurance schemes and agreement-based benefits.

not only apply for members of the trade union organisations that have signed the agreement but also to others who are covered by the agreement. Almost all workers employed in the public sector are covered by collective agreements. Exceptions can be made, for example, for employees by the hour or employees on short term contracts, but all workers on regular employment contracts in the public sector are covered. Approximately 95 percent of the employees in the private sector are covered by collective agreements. Individual agreements also exist where the employer, as part of the individual contract of employment, undertakes to purchase insurance coverage such as pension insurance for the employee. This type of additional benefit is particularly important for people on high incomes. Closely related to the individual contract of employment are unilateral undertakings by the employer to provide a specified benefit in the event of loss of income.

There are also various forms of *member insurance policies* provided through the trade union organisations. Unlike agreement-based benefits that cover all employees at a workplace through a collective agreement, member insurance only covers those who are members of the trade union. Eighty-five percent of the employees are union members. There are two main types of member insurance policies. One of them covers all members of a trade union or all members of a trade union within a particular area. Insurance of this kind can be called *compulsory member insurance*. It is financed through the membership fee or through compulsory special fees. The other form of member insurance consists of an offer to members of a trade union to take out an insurance policy that, for instance, covers against accidents or supplements the health insurance. The members can either accept the offer or abstain from doing so. The individuals that join pay an insurance fee. The benefits of an insurance of this kind compared with wholly private insurance may be lower fees due to economies of scale, less stringent individual assessment and the assistance of the trade union in safeguarding one's rights. Insurance of this kind can be called *voluntary member insurance* or *group insurance*. In addition to these insurance policies, there are wholly *private insurance* policies – policies that people purchase themselves from an insurance company. They are particularly important in the sphere of pensions and have been encouraged for a long time through tax relief.

3. Spheres of agreement

In most cases the agreement-based benefits for a particular type of loss of income are organized in four spheres of agreement:

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

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

Table 1 The male and female share in different sectors 2003

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

Source: Statistics Sweden's wage structure statistics.

According to Table 1, most workers are employed in the private sector. The majority of those who work in the public sector are employed by municipalities and county councils, while relatively few are central government employees. The central government sector has decreased in the past decades by activities being transferred to municipalities and county councils and not least to the private sector. The self-employed are not included in this table. The majority of the self-employed are men.

Table 1 also shows the distribution of women and men between different sectors. The share of women differs greatly between sectors. Women make up the great majority, 79 and 80 per cent respectively, in municipalities and county councils while the majority of blue-collar workers in the private sector are men (70 per cent). The distribution is more even among

white-collar workers in the private sector (44 per cent women) and among central government employees (48 per cent women).

Table 2 shows that the number of women in the private and public sector is approximately the same (50 per cent in each sector), while the great majority of men are employed in the private sector (83 per cent). This indicates that the design of supplementary benefits in the public sector is important for more women than men and that the design of the supplementary benefits in the private sector is important for the majority of men.

Table 2 The distribution of male and female employees on sectors in 2003

	Men	Women	All
Central government	6%	6%	6%
Municipalities	9%	34%	21%
County councils	2%	10%	6%
Private sector: white-collar	39%	31%	35%
Private sector: blue-collar	44%	19%	32%
Total	100%	100%	100%

Source: Statistics Sweden's wage structure statistics.

Besides the benefit schemes for the four large spheres of agreement, there are often other agreements that apply to parts of these sectors, usually agreements for particular industries in the private sector. The explanation for there generally being agreements in four large sectors and not in a lot of subsectors can be found in the fact that most agreements on supplementary benefits were mainly drawn up at a time when central wage negotiations predominated both in the public and private sector. Wage negotiations in the private sector no longer take place centrally but on an industry basis, i.e. on a lower level than before. This means that it has now become more complicated to change existing benefit schemes, which usually apply to broader areas than the wage agreements. New supplementary benefit schemes tend to come into existence at the industry level and thus also to vary more from industry to industry than previously. The agreements on supplementary benefits for parental leave are a clear example of this variation.

4 The social insurance system and supplementary compensations in different fields

We will in this section give a short survey of the social insurance and the complementing compensation schemes according to different causes of income loss: unemployment, occupational injury, sickness, disability, old age, and paternal leave. Detailed presentations of the schemes are given in Chapters 2-7 in Sjögren Lindquist & Wadensjö (2005).

4.1 Unemployment benefits

The public unemployment insurance compensates for income loss for 300 days. The level of compensation is 80 per cent of the income loss to an income ceiling. The ceiling in the unemployment insurance differs from the ceiling of 7.5 price base amounts (SEK 24,812.50 per month in 2006) in the rest of the social security insurance system. During the first 100 days in the unemployment spell the income ceiling is SEK 20,075, and then the ceiling is lowered to SEK 18,700.

There are three basic types of supplementary benefits in the event of unemployment: “job security” agreements between a trade union and an employer organisation, member insurance coverage, and individual insurance policies taken out through a trade union.

There are four major security agreements. According to the *central government* job security agreement, the benefit level including benefit from the public unemployment insurance is 80 percent of the previous wage and is paid for as long as the benefit from the public insurance. For *employees in municipalities and county councils* there are two different kinds of supplementary unemployment benefits. One is a lump sum benefit of 1/3 of the monthly salary times the number of year of the employment spell (with a ceiling of 18 years). The other is a periodic job loss benefit that is paid during the unemployment spell. The benefit level including the benefit from the public unemployment insurance is 80 per cent of the previous wage. If the individual is still unemployed after 300 days, a benefit that is linked to the level of the old age pension for those in the sector will be paid for as long as the unemployment lasts.

White-collar workers in the private sector who are covered by the agreement between the Confederation of Swedish Enterprise (Svenskt Näringsliv) and the Private Sector White-Collar Workers’ Cartel (PTK) are paid benefits that together with the public unemployment insurance equal 70 per cent of the wage up to 20 price base amounts and 25 percent on wage portions above this level during the first six months of unemployment. The benefit level then

decreases to 50 percent of wage portions below 20 price base amounts. The maximum benefit period varies with age and is at least 6 months and at most 18 months.

Blue-collar workers in the private sector who are covered by the agreement between the Confederation of Swedish Enterprise (Svenskt Näringsliv) and Swedish Federation of Trade Unions (LO) are paid a lump sum, AGB, in the event of notice that becomes higher with age and varies between SEK 25,000 and SEK 36,000.

In addition to the benefits determined by law or by agreement between employer organisations and trade unions, there is also *insurance coverage arranged by trade union organisations*. There are two types – *collective insurance* that covers all members of a trade union and *individual insurance* coverage. (i) In the summer of 2005 eight unions that are members of the Swedish Confederation of Professional Associations (SACO) and two unions that are members of the Federation of White-Collar Workers (TCO) had collective insurance cover for their members. Supplementary insurance coverage provides compensation of 80 per cent of wage portions above the ceiling in the public unemployment insurance scheme. The duration of the period of benefit varies between 100 and 120 days. Individual supplementary insurance policies can be taken out in some cases. This provides cover for an additional 120 to 160 days. (ii) All SACO unions and a number of TCO unions offer individual income insurance coverage. The members of these organisations can take out insurance which provides additional coverage to unemployment for income over the ceiling. The benefit period is 240 to 280 days. (iii) Those who belong to an unemployment fund but not necessarily to a trade union can take out individual income insurance with the insurance company Accept.

4.2 Occupational injury benefit

All of those who are gainfully employed (wage-earners and self-employed), and those in education (or a labour market training programme which entitles to activity support) where there is a special risk for occupational injury, are insured for occupational injury. In the event of occupational injury, the insured is entitled to the same benefits from public social insurance as in illness (see section 4.3). However, special occupational injury benefit is paid for waiting days in the sickness insurance scheme. If work incapacity is permanent (or can be assumed to persist for at least a year) the insured can receive an annuity. The annuity covers loss of income up to 7.5 price base amounts (i.e. the compensation level is 100 per cent of wage portions below the ceiling and 0 per cent above the ceiling).

The benefit from public occupational injury insurance is supplemented for the majority of employees by some form of agreement-based insurance in the collective agreements. There are four different spheres of agreements covering *central government employees, employees of municipalities and county councils, white-collar workers in the private sector* and *blue-collar workers in the private sector*, respectively. The agreement-based insurance schemes provide the same level of benefit in the event of loss of income due to occupational injury during periods of acute illness and permanent invalidity in the four different spheres of agreement. Occupational injury due to accident entitles to benefit only if the incapacity for work lasts for over 14 days or results in permanent invalidity. The first day of illness (the waiting day) the insured is compensated by 100 per cent. Day 2 to 14 the compensation level is 20 per cent for wage portions below the ceiling of 7.5 price base amounts and 100 percent for wage portions above the ceiling. Day 15 to 90 the compensation level is 10 percent below and 100 percent above the ceiling and from day 91 and onwards the compensation level is 20 percent below and 100 percent above the ceiling. In case of permanent invalidity and if the insured is granted an annuity from the public insurance system, supplementary annuity is paid at 100 per cent of loss of income for wage portions above 7.5 price base amounts. It means that the compensation is 100 per cent of the income loss. It is a higher compensation rate than in any other scheme. To get this favourable agreement the unions and their members have agreed to abstain from any other compensation for work injuries.

4.3 Sickness benefits

According to the Sick Pay Act, workers are entitled to *sick pay* from the employer for the first 14 days of the sick period. The first day is a waiting period and the sick pay for day 2-14 is 80 percent of the wage and other employment benefits. In the event of a period of sick leave exceeding 14 days, the social insurance office will pay public *sickness benefits* of 80 percent of the wage up to a ceiling in the social security system of 7.5 price base amounts. In 2006 7.5 price base amounts corresponds to a monthly salary of 24,812.50 SEK.

There are four agreements in the area of sickness benefits that together cover the major part of the labour market. Furthermore, there are also group insurances in this area arranged by trade unions and private insurance coverage which are not dealt with here. According to the Sick Pay Act, if the employee retains more than 90 percent of the wage during the period of sick leave, for instance by agreement-based compensation together with public insurance, the sickness benefits paid from the public insurance system is reduced by the excess amount.

During the sick pay period (day 1-14) no additional supplement is paid for workers in any sector.

Central government employees with an annual wage up to 7.5 price base amounts retain 10 per cent of their wage during the 15th to the 90th sick day. Those with wages over 7.5 price base amounts retain 10 per cent of wage portions below 7.5 price base amounts and 90 per cent above 7.5 price base amounts between day 15 and 90. From day 91 and on, the employee retains 0 per cent of wage portions up to 7.5 price base amounts and 80 per cent of wage portions above this limit. All sick pay is paid by the employer (and not by insurance).

From the 15th to the 90th sick day, *employees of municipalities and county councils* retain sick pay from the employer which together with sickness benefits from the social insurance office is equivalent to 90 percent of the wage. Between the 91st and 360th sick day, supplementary benefit is paid by insurance at 10 percent of wage portions up to 7.5 price base amounts. Those with wages above 7.5 price base amounts not only retain the 10 percent of wage portions below the ceiling from the insurance, but also sick pay from the employer from the 91st day of 80 per cent of wage portions above the ceiling for as long as the sick period lasts.

White-collar workers in the private sector retain sick pay from the employer which together with the sickness benefit from the public social security is equivalent to 90 per cent of the wage from sick day 15 to 90. Employees with wages above the ceiling are entitled to an insurance based compensation from sick day 90 for as long as sickness benefit from the social security office is paid. A compensation of 65 percent is paid for wage portions between 7.5 price base amounts and 20 *income* base amounts (the income base amount is SEK 43,300 in 2005) and a compensation of 32.5 per cent for wage portions between 20 *income* base amounts and 30 *price* base amounts.

Blue-collar workers in the private sector retain sick pay from sick day 15 to 360. The benefit insurance is equivalent to 10 percent of wages below the ceiling. No benefit is paid for wage portions above the ceiling.

4.4 Benefit for permanently reduced work capacity (disability pensions)

A person who has a permanent reduction in work capacity of at least 25 per cent may receive a disability pension. A disability pension paid to persons aged between 19 and 29 is always temporary and granted for a maximum of three years at a time. Disability pensions paid to persons aged 30 to 64 years can be both permanent and temporary. The benefits are income-related and independent of whether they are temporary or not. Income-related compensation is

calculated as 64 percent on *assumed income* parts below 7.5 price base amounts. The assumed income is the average income of the three highest annual incomes over a time frame which is dependent on the age of the insured. There is also a guarantee benefit of 2.4 price base amounts, equivalent to a monthly benefit of SEK 7,940 in 2006, for low-income earners.

There are four major agreements regarding complementary disability pensions that together cover the major part of the labour market. *Central government employees* are entitled to a supplementary disability pension if they have been granted a disability pension from the public social security system. The complementary disability pension is 21 per cent of the *pension basis* (made up of fixed salary, other pay-related cash benefits, excluding overtime pay, and other benefits in kind) for pension bases below 7.5 price base amounts, 81 percent between 7.5 and 20 price base amounts and 40.5 per cent for pension bases between 20 to 30 price base amounts. When *employees of municipalities and county councils* receive a disability pension, an extra benefit of between SEK 75 and SEK 3,459 a month is paid depending on the annual income at the time the illness started. For those who have an income in excess of the ceiling, a monthly benefit is also paid consisting of 65 per cent of wage portions between 7.5 and 20 price base amounts and 32.5 per cent for wage portions between 20 and 30 price base amounts. For wage portions below 7.5 price base amounts, *white-collar workers in the private sector* receive supplementary benefits of 15 per cent of their wage, for wage portions between 7.5 and 20 income base amounts the supplementary disability pension is 65 percent and for wage portions between 20 and 30 income base amounts, the benefit is 32.5 percent. *Blue-collar workers in the private sector* receive between SEK 75 and SEK 3,459 a month, depending on their income at the time the illness started, when sickness compensation from the public sector is paid.

4.5 Old age pensions

A new national pension scheme was decided on in 1998. The new pension system consists of three parts: income pension, premium pension and guarantee pension. Income and premium pension are based on the incomes in all years up to retirement. Every year, an amount corresponding to 18.5 per cent of the insured person's pensionable income is assigned to an individual pension entitlement (16 per cent to the income pension and 2.5 per cent to premium pension). If the income and premium pension is low or non-existent, there is a guarantee pension to supplement the pension. To receive a full guarantee pension, a person

must have lived in Sweden for 40 years. Guarantee pension can be received at the earliest from the age of 65.

The contribution that each person pays provides pension entitlement. In addition to wages from employment and income from self-employment, benefits from social and unemployment insurance are also counted. Studies (with study assistance), national service (conscription) and years spent raising small children (years with children up to four years of age) also confer pension entitlement. There is a ceiling of 7.5 income base amounts before tax per year. Payments for the premium pension can be shared between spouses or registered partners. Only pension entitlement earned in marriage or partnership can be transferred and this is currently done from year to year.

When the pension starts to be paid, it is calculated taking into consideration a particular growth in the economy and the calculated length of life for the cohort to which the person belongs. If life expectancy gradually increases, later cohorts will receive a lower income pension than earlier cohorts at a given income. Higher growth in the economy provides higher pensions through indexation. The pension can be drawn at the earliest from the age of 61. There is no upper limit for when the pension must start to be drawn. In the previous system, the pension did not become higher if it started to be drawn after the age of 70 than if it was first drawn at the age of 70.

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

Blue-collar workers in the private sector received occupational pensions from 1973 in accordance with the agreement between SAF and LO on special supplementary pensions, the STP-system. SAF-LO agreement-based occupational pensions replaced the STP-system in 1996. The SAF-LO agreement-based occupational pension is a contribution-based system. Premium payments take place through the employer setting aside 3.5 per cent of the wages bill each year.

The supplementary pension for white-collar workers in industry and trade, ITP, was introduced in 1960. ITP covers all white-collar workers in the companies covered by the agreement with the exception of managing directors in limited companies. ITP years can be

earned from the age of 28. For full ITP, 30 whole entitlement years are required. If the years of employment are less than 30 years, the pension is reduced proportionally. In ITP, the size of the pension is based on the wage (including benefits in kind such as food and accommodation, compensation for regular shift work, time on call and stand-by time) that applied at the time of retirement and an average of commission and production bonus payments during the last three years. ITP is 10 per cent on wage parts up to 7.5 income base amounts, 65 per cent on wage parts between 7.5 and 20 income base amounts and 32.5 per cent on wage parts between 20 and 30 income base amounts. (In 2006 the income base amount equals SEK 44,500) No ITP is received on wage portions above 30 income base amounts. In addition to ITP, there is the ITPK supplementary pension which is paid for five years as standard. Premium payments for ITPK take place through the employer setting aside 2 per cent of the wages bill each year (up till a maximum of 30 income base amounts). It is possible to choose payment during another number of years or as lifetime payment.

The first pension scheme for central government employees was introduced already in the 18th century. There have been several changes since that time. PA-91 replaced an earlier pension scheme for central government employees in 1992. To be covered by the old age pension agreement, it was required that the central government employee was employed for at least 40 per cent of full-time employment and had attained the age of 28 but not 65. 30 years of employment were required for a full occupational pension. From 1 January 2003 PA-91 was replaced by PA 03. PA-91 continues to apply, however, for individuals who were born in 1942 or earlier. The retirement age is now 65 for all except certain small groups. The occupational pension consists of two defined contribution based pensions – individual old age pension and supplementary old age pension. There is also a defined benefit pension for those whose income is larger than 7.5 income base amounts per year. It is calculated on the average wage in the last five years prior to retirement up to income of 30 base amounts.

For those employed by the local government a new pension agreement was reached in 1998. From the age of 28 an employee can be credited with an annual pension contribution on the contribution base. The contribution base consists of the “pensionable wage” which consists of the monthly wage, overtime compensation and supplements for work that take place outside normal working hours (for example nights). The size of the old age pension depends on the pension wage and the pension contributions paid. Those with income above 7.5 increased price base amounts also receive a defined benefit pension. The defined benefit pension is calculated as a percentage of the annual average points of the five highest annual

points for the seven calendar years immediately preceding the drawing of pension. A new pension agreement for municipalities and county councils was reached in December 2005. The new agreement entails significant changes. It should be underlined here that there will be a relatively long period of transition between the old and the new system. Among the major changes can be mentioned: 1) the benefit ceiling is adjusted to the national pension system, 2) the contributions are uniformly in per cent and will be the same below and above the ceiling, 3) the fact that contributions will be the same above and below the ceiling will mean that contributions will be increased markedly above the ceiling and this eventually also the defined contribution pension for those with an income above the ceiling, which will be counteracted by the defined benefit pension decreasing as a portion of income above the ceiling, and 4) a possibility of partial pensions is introduced.

4.6 Parental leave benefit

Parents are each entitled for parental benefit in 240 days with an opportunity to transfer days to the other parent with the exception of 60 days which are reserved for each parent individually, the so-called mommy/daddy months. For 390 of the parents' 480 days, public parental insurance benefit is 80 per cent of the wage up to a wage ceiling of 7.5 price base amounts. There is also a minimum-level of SEK 180 per day. For the remaining 90 days the benefit is a fixed amount of SEK 60 per day. There are agreements on supplements to parental insurance in many different parts of the labour market. It is important to note that we are referring here to benefits paid by the employer and not to agreement-based insurance schemes.

Parental benefit supplement for *central government employees* consists of a maximum of 330 days per parent. The parental benefit supplement is 10 per cent of wage portions below 7.5 price base amounts and 90 per cent of wage portions above this ceiling. The parental benefit supplement for *employees of municipalities and county councils* is equivalent to 10 per cent of the monthly wage and paid for one month if the employee has been employed for at least 365 but not 730 days or for two months if the employment has lasted 730 days or longer. Half of the amount is paid when the period of leave is started and the rest when the employee has returned to work and has worked for three months for the employer after the period of leave. If the wage exceeds 7.5 price base amounts, the employee also receives a benefit of 80 percent of wage portions above the ceiling for 270 days. For *private employees* the public parental benefit is complemented by the parental wage. The parental wage, terms and conditions differ between different spheres of agreements which are usually industry-wise in

the private sector. The “typical” parental wage for *blue-collar workers* is a benefit of 10 percent of the wage for one to four months. Generally the benefits are more generous for *white-collar workers* in the private sector; the “typical” parental wage equals 10 per cent of the wage below the ceiling and 90 per cent of the wage above the ceiling for one to four months. According to most agreements half of the parental wage is paid when the period of leave begins and half when the employee has been back with the employer for three months. However, there are agreements that give supplementary parental leave benefit for much longer periods, and also agreements where only women can receive a parental wage.

5. How are supplementary benefits designed?

We have underlined that other forms of benefits complement the social insurance benefits. How are these supplementary benefits designed? The presentation above has shown that there are three main ways in which the social insurance schemes are supplemented.

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

The second way is that supplementary schemes give compensation for income parts above the ceiling for the social insurance benefits. The compensation rate from the supplementary benefits above the ceiling is usually considerably higher than the additional compensation provided below the ceiling. In many cases, this means that the total compensation rate will be the same, or almost the same, above the ceiling as below it.

The third way is that supplementary benefit extends the total period of benefit. This kind of extension is possible in cases where the duration of the benefit period provided by the social insurance scheme is limited. One example is that the supplementary benefit can extend the period of benefit for those who are unemployed.⁴ Another example is that agreement-based pensions can be paid before the ordinary retirement age in the social insurance scheme and

⁴ See Sebardt (2005) for the development and functioning of the collective agreements in the field.

thus extend the period during which old age pension is paid. Extensions of the period of old age pension of this kind were considerably more common previously when many groups by agreement had a retirement age below the ordinary retirement age of 65 (before July 1976 67), than is the case today.

The compensation rate from the supplementary benefits is highest for income above the ceiling of the social insurance benefits. However, in many schemes for blue-collar workers in the private sector benefits are not paid for income parts above the ceiling. When the systems started very few if any blue-collar workers had incomes over the ceiling and the trade union therefore had no incentives to argue for compensation over the ceiling. In one case where such benefits exist for blue-collar workers in the private sector, old age pension, the compensation rate is only the same as that for income parts below the ceiling. An important question is how many have a salary above the ceiling of the social insurance benefits. Estimates are shown in Table 3 for the ceiling that applies for old age pension and sickness benefit (7.5 price base amounts). Among men employed in central government, county councils or as white-collar workers in the private sector, the proportion who have salaries above the ceiling is around fifty per cent or higher. The proportions with salaries over the ceiling is also high among women in these areas compared with the corresponding shares for women in other areas, although they are considerably lower than for men in the same areas. Among municipal employees and blue-collar workers in the private sector, the proportion with salaries above the ceiling is considerably lower than in the other areas. However, almost 10 per cent of the blue-collar workers in the private sector have salaries over the ceiling. Benefits for income parts above the ceiling are accordingly also of interest for a part of this group.

Table 3 Share with salary over SEK 25,000 per month in 2003 (the ceiling in the social insurance schemes is 7.5 price base amounts, i.e. a monthly salary of SEK 24,812.50 in 2006 and SEK 24,125 in 2003)

	Men	Women	All
Central government	50%	26%	38%
Municipalities	19%	8%	11%
County councils	48%	19%	25%
Private sector: white-collar workers	56%	29%	45%
Private sector: Blue-collar workers (pay over SEK 24,000)	11%	4%	9%

Source: Statistics Sweden's wage structure statistics.

Pay varies with age and how it varies is important, among other things, for the level of compensation on retirement. The salary during the year (years) prior to retirement is important for the benefit-based parts of the agreement-based pensions. Therefore we show the proportion that has a salary over SEK 25,000 a month for different sectors in five-year classes between 45 and 64 years for all persons and for men and women separately. See Tables 4–6. Salaries are higher than average for those aged 55 to 59 and 60 to 64 in the sectors that have benefit-based pensions for income parts over the ceiling. This applies to men but not to women with the exception of women in the municipal sector. Among men aged between 60–64 who are state or county council employees or who are white-collar workers in the private sector, more than 60 per cent have wages above the ceiling of the social insurance schemes.

Table 4 Share with a wage over SEK 25,000 in 2003 (SEK 24,000 for blue-collar workers in the private sector)

Age	Central government	Municipalities	County councils	Private sector white collar-workers	Private sector: blue-collar workers
45–49	44%	11%	27%	57%	11%
50–54	43%	17%	29%	50%	10%
55–59	44%	23%	29%	49%	11%
60–64	47%	23%	27%	46%	8%
18–64	38%	11%	25%	45%	9%

Source: Statistics Sweden's wage structure statistics.

Table 5 Share of men with a wage over SEK 25,000 in 2003 (SEK 24,000 for blue-collar workers in the private sector)

Age	Central government	Municipalities	County councils	Private sector: white-collar workers	Private sector: blue-collar workers
45–49	58%	20%	53%	65%	13%
50–54	59%	29%	56%	65%	12%
55–59	60%	38%	60%	64%	11%
60–64	64%	40%	63%	61%	9%
18–64	50%	19%	48%	56%	11%

Source: Statistics Sweden's wage structure statistics.

Table 6 Share of *women* with a wage over SEK 25,000 in 2003 (SEK 24,000 for blue-collar workers in the private sector)

Age	Central government	Municipalities	County councils	Private sector white-collar workers	Private sector blue-collar workers
45–49	29%	9%	22%	36%	5%
50–54	27%	14%	22%	30%	3%
55–59	27%	18%	21%	29%	4%
60–64	28%	18%	19%	24%	3%
18–64	26%	8%	19%	29%	4%

Source: Statistics Sweden's wage structure statistics.

The ceiling is lower in unemployment insurance than in other social insurance benefits. There are moreover two ceilings (the applicable ceiling depends on the length of time the person has been unemployed). In Table 7, we have broken down the individuals by income to see how large a proportion is above the upper ceiling, between the two ceilings, and below the lower ceiling. We are not able to produce exact figures since we have not been able to break down the individuals' monthly wages according to the exact limits for the ceilings but only to the nearest thousand kronor. However, we believe that the figures provide some idea of for how many supplementary benefits provide increased income coverage between the ceilings and above the upper ceiling.

Table 7 Share with a wage below SEK 19,000 per month, between SEK 19,000 and SEK 20,999 and SEK 21,000 or above in 2003 (the two ceilings in the unemployment insurance scheme were SEK 18,700 and SEK 20,075 in 2003)

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

Source: Statistics Sweden's wage structure statistics.

Since both ceilings in the unemployment insurance scheme are lower than the ceiling in other social insurance schemes, there are more people with wages above the ceilings. Table 7 shows that large groups have wages that are between the two ceilings and above the upper ceiling. This is particularly the case for men but also for many women. This means that supplementary unemployment benefits for parts of wages between the ceilings and above the upper ceiling can provide increased income coverage for large groups.

6. Effects of the supplementary benefits

When we discuss the effects of the supplementary benefits, it is important to remember how they are constructed. Basically they supplement in three respects. Firstly, the supplementary benefits often provide a specific supplement for parts of income below the ceiling in the social insurance schemes. This supplement may be designed in different ways in different areas and in different benefit schemes. Secondly, the supplementary benefits often provide benefits above the ceiling in the social insurance schemes. This supplement may also be designed in different ways but often provides a benefit that makes the level of benefit the same or not

especially less above the ceiling than below it. Thirdly, the supplementary benefits in some cases extend the period of benefit so that it is longer than in the social insurance system.

A characteristic feature of the Swedish social insurance system is the fact that the right to receive benefit does not depend on a person's place of work and that the benefit is not affected by a change of employer (if the wage is the same) in such a way that it is an advantage to remain or to change jobs. The Swedish social insurance system is thus neutral to changes of workplace and does not hinder mobility. To a certain extent the supplementary benefits are also unaffected by a change of employer. The agreement-based benefits are the same within the large areas of agreement and the rights are not usually affected by a change of employer within an area of agreement. To a large extent this also applies where a change of employer also means a change in the area of agreement. The qualifying periods are generally short and it is possible, for example, to carry the balance forward in an agreement-based pension scheme when transferring to another scheme. There are, however, a number of obstacles that can hinder mobility on the labour market. We shall return to this subject later.

As mentioned earlier, the supplementary benefits determined via agreements are financed by the wage-earners relinquishing a part of the scope for wage increases in order to have a right to benefit in the event of, for instance, unemployment, sickness etc., while the individuals pay direct membership fees and insurance premiums for member insurance and personal insurance schemes. It is therefore the wage-earners themselves who finance the benefit in various ways, even though the decisions to establish and change the schemes are not made by the individuals but by their trade union organisations either in negotiations or through the setting up of member insurance schemes. Despite this, the supplementary benefits can have similar economic effects as the social insurance schemes. We shall discuss some of the different economic effects and will begin with effects on income distribution.

6.1 Effects on income distribution

The various supplementary benefit schemes ensure that earnings are carried over from periods in work to periods without work. This means, for example, that people relinquish pay in order to receive a higher pension at a later date than they would have received if the social insurance system had existed alone. If the supplementary benefit schemes are designed as insurance schemes with premiums independent of individual risks and people have different risks, which must reasonably be the case, the supplementary benefit schemes entail redistribution in

the same way as the social insurance schemes do. One difference is that the redistribution takes place within the areas of agreement and not over the whole labour market. With individual risk-differentiated insurance schemes the same type of redistribution does not occur.

As has been mentioned, agreement-based benefits can be seen as a part of wage agreements where a part of the scope for wage increases has been allocated for agreement-based benefits or agreement-based insurance schemes. This allocation is often greater for wage portions above the ceiling than below it. This means that we have an incomplete and partly misleading picture of wage costs and gross wages when we do not include the employers' costs for the agreement commitments or alternatively the value of these commitments for the individuals. It also probably means that the economic return from education is underestimated unless consideration is given to the supplementary benefits.

6.2 Effects on the supply of labour and hours worked

One of the most widely discussed issues is the effects of social insurance on the supply of labour and the number of hours worked in the economy. As mentioned previously, there is reason to assume that agreement-based benefits and other benefits have effects similar to those of the social insurance schemes.

The occurrence of income benefit for loss of earned income can on the one hand be an incentive for people to seek work and therefore join the workforce. The income benefit means that the expected benefit from having a job becomes greater in the same way as a higher wage does. The introduction or improvement of agreement-based benefits can, as with a wage increase, make more people join the labour force.

The agreement-based benefits can, on the other hand, in exactly the same way as the social insurance schemes, give people who are in the labour force and are covered by the benefits systems an incentive to leave the labour force or not be in work for shorter or longer periods of time.

The age at which people leave the labour market to take their old-age pensions is affected by the design of the old-age pension system. The answer to the question of what kind of a pension a person receives at, for example, 61, 65 and 67 can affect the age at which the individual decides to retire. Here it is not just a question of what information is given in the orange-coloured envelope containing the annual statement about the pension from the social insurance system but also, provided that the individual is informed, how great the agreement-

based occupational pension is and how it varies depending on the age at which it is taken. We can expect the retirement age to be affected partly by the pension level the person receives (the higher the pension, the earlier it will be taken), and partly by how the pension varies according to the age at which it is taken.

The development of the sickness rate has been a focal point of the debate in recent years. Among the factors that have been specially noted are the replacement rates in the health insurance and the disability pension systems. If the benefits from these systems have an effect on the take-up rate, it is reasonable to assume that the agreement-based benefits in the same areas also influence the take-up rate, i.e. that it is the total level of benefit that has significance. There is no reason to believe that agreement-based benefits should have other types of effects than the benefits from the social insurance system.

Similarly, there is a discussion about the effects of unemployment insurance on unemployment; about how it affects the number of unemployment spells and especially the duration of the spells. Higher benefit and longer periods of benefit can reduce the intensity of the search for work and increase the demands that the person seeking work places upon a job before being willing to take it (increasing the reservation wage). If we have effects of this kind, it is also reasonable to assume that it is the total benefit (not just the benefit from the unemployment insurance scheme) and the total benefit period (not just the period covered by the unemployment insurance scheme) that is important.

6.3 Effects on mobility on the labour market

The Swedish social insurance system is structured in such a way as to ensure that entitlement to benefit is preserved when changing jobs. Rights that are accumulated at one job are therefore transferred to the next. The period of employment with the most recent employer has no significance in terms of the possibilities for receiving benefits from the social insurance system. In general this also applies to agreement-based insurance schemes and agreement-based benefits. The period of employment with the most recent employer is of no importance in terms of the benefit in most cases. There are, however, exceptions.

There are several exceptions within the supplementary parental leave benefit schemes. To receive benefit it is necessary in most agreements within the private sector to have had at least one year's employment with the most recent employer. The size of the benefit also varies in a number of agreements according to the period of employment. The longer the period of

employment, usually the longer the period of supplementary benefit is. It is often also necessary for the employee to return after taking parental leave and work for a specific period of time at his/her old workplace in order to receive the entire supplementary benefit allowed for parental leave. The rules described here give incentives for avoiding a change of employer for those who plan to have children within the next few years and avoid changing job in the parental leave period. One explanation as to why the supplementary benefits are designed in the way described here is that they are relatively recent and therefore appeared during a period where agreements were made at the industry level rather than centrally. Uniform agreement-based insurance schemes are easier to arrange through central negotiations.

Other examples are possible to find in the occupational pensions based on collective agreements. In this area the earned pension rights are guaranteed and indexed for those changing employer. Since the benefit above the ceiling is an important part in several of these systems and does not depend on wage parts above the ceiling throughout all years but only during the years immediately before the pension starts, this means that the costs can be very high for the employer who recruits an older worker and pays a wage higher than he had before. This can give the employer an incentive to avoid employing older people for positions with a positive wage development late in the career. Another problem is that the last employer has been responsible for a large part of the pension cost for individuals who have changed jobs within the public sector, now however only within the municipal sector (the defined benefit part). This gives the municipal employers strong incentives to avoid employing older staff who come from a position with a municipal employer in another municipality. A third problem is that the pension for wage parts above the ceiling does not depend on the total wage but the part of the total wage that is earned within a specified agreement area. Half-time work within one sector combined with half-time work within another sector can lead to a considerably lower pension than full-time work within one sector even if the total annual income would be exactly the same in the two cases. This gives an incentive to avoid combining jobs, solutions which in some cases might be good for other reasons. Similar effects of job combinations may occur with other agreement-based benefits.

In cases where the benefit is based on the current income (or incomes during the year immediately prior to the loss of work-related earnings) this also means that there is an incentive for the individual to avoid changing to a job with a lower wage (quite apart from the lower wage). This can mean, for example, that people who for health reasons would have

otherwise scaled down their level of work by taking on less demanding jobs now remain and therefore perhaps also need to leave the workforce earlier than in other cases.

6.4 Effects on adjustment and restructuring

Swedish labour legislation provides protection for those in employment. Employees cannot be given notice without just cause and those who have the longest period of employment have the best protection. These regulations involve costs for employers who wish to restructure their business. When they wish to downsize their operation or perhaps steer it in a new direction, they often wish to deviate from the order of priority provided for in the Security of Employment Act (LAS). In order to reach an agreement with the trade union organisations on deviating from the order of priority, the employer must generally offer financial compensation to people who are given notice. Part of this benefit can be given in accordance with collective commitments via different job security agreements, for example severance grants. Such benefit can make it less costly for the individual employer to restructure (if not for the employers as a group since these measures are financed by employer contributions). Nor can one exclude that the Swedish regulatory system with its well-known benefit levels combined with agreement-based severance benefits facilitates the negotiations over changes to a business operation and thus also leads to lower costs. These lower costs can in turn mean that restructuring is faster in Sweden than in countries where the validity of and benefit for the giving of notice are often determined through negotiation in court proceedings.

7. Variations in benefit levels and financing

We shall now briefly compare benefit and financing with different types of loss of earnings. As shown in the presentation of the different schemes in Sjögren Lindquist and Wadensjö (2005), the level of benefit varies considerably between different types of loss of earnings. There are also sizeable differences in terms of how different supplementary benefits are financed. These variations and differences can have economic effects. We are not going to give a full comparison here but will highlight two issues: differences in the level of benefit in different types of loss of earnings and any effects of the type of financing involved.

7.1 Different benefit levels with different types of loss of earnings

The social insurance schemes do not offer the same benefit for different types of loss of earnings. The highest benefit is for accidents at work. It is generally higher for people who are on sick leave than for those with a disability pension and for those who are unemployed and higher for unemployed than for those with a disability pension. The differences consist partly of different levels of benefit and partly of different income ceilings in the benefit schemes. The exact ranking in terms of benefit varies from case to case since the benefits are not always based on the same income definition. Differences in benefit levels can lead to different types of effects. For example, they can give the individual an incentive to prefer to receive a benefit from one scheme rather than another.

The fact that the benefit is higher for accidents at work than for other forms of loss of earnings is justified by the fact that it is not reasonable for the person who suffers injury caused by discrepancies in the working environment to be personally responsible for any part of the loss of earnings. It is harder to determine why the benefit levels for other types of loss of earnings differ. Perhaps the explanation might be sought more in the circumstances surrounding the decisions on benefit schemes than in conscious choices.

A question is whether the agreement-based benefits affect the order according to the level of the replacement rate. They do so in certain areas. This is most clearly seen when comparing the sickness benefits with the compensation given for disability when the complementary benefits are added. Within the social insurance scheme, sickness benefit generally gives higher benefit. The differences will be small, however, when the various benefit types are added up, and a disability pension for some people gives greater benefit than sickness benefits when the additional benefits are counted. The differences between the benefit for illness and unemployment also even out for certain groups (especially those who are employed within the public sector). However, the difference increases between the benefit for occupational injury and other types of benefit when agreement-based benefit is included. It is clearly more advantageous for the individual if a specific reduction in work capacity is deemed to be the result of occupational injury than some other cause.

Questions may be raised with regard to the differences that exist in benefit levels between different parts of the social insurance system, and the differences generated by the system as a whole. Differences of this type place increased demands on those whose job it is to check that

people end up in the right scheme (“gate-keepers”) and can lead to injustices between those who understand the differences and act accordingly and those who do not.

7.2 Agreement-based benefit or agreement-based insurance?

The financing varies between the different types of benefit. In some cases the employer pays the entire benefit in the various concrete cases; in other cases the benefit is paid from an insurance scheme into which the employer (and/or employee) has paid fees and where the premium does not depend on the number of cases that the employer has (no “experience rating”). The first model gives the employer strong incentives to avoid cases occurring for which benefit is payable – the employer is after all responsible for the benefit. In the second instance the financial incentives are not as strong – an extra case does not greatly affect the premium that the employer pays.

Taking into account the effects on incentives, the level of experience rating should be greatest where there are reasons for trying to influence the employers’ behaviour, but there should be little or no experience rating where there is no wish to influence employers’ behaviour. For example, there are reasons for having a high level of experience rating in cases of supplementary benefits for occupational injury in order to increase the incentive for employers to take measures that prevent accidents at work. However, there are no corresponding arguments for experience rating in cases involving supplementary benefits for parental leave, i.e. there are no arguments for having schemes that give employers financial incentives to obstruct people from having children or to avoid employing people who might be expected to take parental leave, i.e. most particularly to avoid appointing young women.

So what does this look like in practice? There is no experience rating in the agreement-based benefits connected with occupational injury, but each employer is entirely responsible for the benefit relating to supplementary parental benefit. This goes against the analysis presented above and cannot be explained by saying that there is a desire to give the employee a guarantee of full benefit for loss of earnings caused by an accident at work even if the employer is not able to pay. It should be possible to solve this by supplementary insurance in order to guarantee that benefit is also paid in cases where the employer is unable to pay the promised benefit (for example, in cases of bankruptcy). The answer is probably to be found in that the agreements are from periods with different bargaining systems.

8. Groups outside the supplementary schemes

The Swedish social insurance system is an example of a system that covers the whole population – basic security combined with income-related benefits. Few people are not covered by the safety net of social insurance. The same applies to the supplementary agreement-based benefit schemes. A small number of agreements – usually four large ones and a few small ones – cover the major part of the labour market. Most employees are entitled to supplementary benefits. Not all, however, are covered by these agreement-based benefits. In some cases this is because the benefits do not cover all those people who in other respects are affected by the agreements which the social partners have entered into. This applies most of all to those below the age limit specified in the agreements, for example the supplementary benefits relating to the giving of notice. To a certain extent this also applies to those who have very short job spells. Here the limits used to be much more restrictive, but there are still job spell limits in some agreements. A more important point is that certain groups are not covered by the benefit schemes as decided upon in collective agreements.

Most wage-earners in the Swedish labour market are members of trade unions or work for companies that have collective agreements. They are therefore covered by agreement-based, supplementary benefits. However, not everyone is a member of a trade union or has an employer who is a member of an employers' organisation or who in some other way has arranged supplementary benefits. To a certain extent these can be people with a strong position on the labour market, but the majority probably consists of groups with a weak position. It is important to chart the size and composition of this group that lacks supplementary protection, not least with a view to discussing a possible expanded role for the agreement-based benefits.

Another group not covered by collective agreements is the self-employed. Some of them are covered by complementing compensations. Many of them have a job as wage-earner alongside their self-employed activity and are therefore covered to the extent of the income from that job. Some self-employed complement the coverage they have via the social insurance system through the agency of an organisation to which they belong (for example, *Företagarna*) or by private insurances.

The self-employed are not a uniform group. The differences in income are very great in this group and many self-employed people have low incomes and an unstable situation. Immigrants who have arrived as refugees, for example, are over-represented among the self-employed. This is a group with a weak position on the Swedish labour market and many of the immigrants who are self-employed have low incomes. Many self-employed people are

unorganised and many therefore are probably also poorly covered by supplementary insurance schemes.

9. Information and incentives

The Swedish social insurance system is well known among the general public if not in every detail. This knowledge is helped and promoted by the fact that the system is universal, information is regularly sent out from the authorities involved and it receives widespread media attention. There is not the same knowledge of the supplementary benefits and the knowledge is generally partial in the sense that it is mostly regarding agreements by which the individual is covered and not on other agreements, agreements by which this person should be covered in the event of a change of job. This means that many probably make decisions based on incomplete information, which can mean that a number of people make decisions other than the ones they would have made if they had better information. What kind of mistakes, then, can people make as a result of inadequate information?

One possible problem is that people over-insure themselves. For example: if individuals know what they will receive in their old-age pension from the social insurance system but not what they will receive from the agreement-based pension scheme, they can underestimate the total pension they will receive. This can lead them to take out more private pension insurance than they would otherwise have done. In this way they receive a non-optimal distribution of their consumption over their life cycle. If they find out the total amount they will receive in their pension as they approach retirement age, “over-insurance” can lead them to stop work and draw their pension earlier than they would have done otherwise. Over-insurance can also occur in other areas.

Another problem is where people who are not aware of qualifying periods in different systems change jobs when they would not have done so if they had better information on the benefits schemes.

A third problem is where people make combinations of different jobs leading to a lower level of benefit protection in the supplementary benefits schemes, which they would not have done had they had knowledge of the schemes.

Is lack of information about the agreement-based benefits a problem? It has been suggested that it is actually an advantage since it makes the issue of incentive effects less serious. There are certain objections against this viewpoint. It is probably true that some people have far bet-

ter information of the different benefit schemes than others. Those who possess this superior information have an advantage compared with those who do not. The lack of information is probably also partial in a systematic way. The lack of knowledge of which type of benefit is payable is probably most evident before a person receives benefit, but less likely after the person has been receiving benefit for some time. The lack of information will probably therefore mostly affect the inflow of persons to a benefit scheme (they will be fewer than with full information) rather than the time people remain in that benefit scheme.

10. Information and research

It is not only the public who have inadequate information about the various agreement-based benefits and other supplementary benefits. Politicians, investigators and researchers also lack knowledge of the agreement-based benefits and how they have been changed and are changing. One problem within the research is that studies of the social insurance schemes are made without consideration being given to the fact that supplementary benefits exist. In a certain sense, this can be considered the same as carrying out studies of the effects of municipal income tax without taking into account the fact that state income tax also exists. If it is the total benefit that is of importance for behaviour and not only the benefits from the social insurance system, information of the total system is needed. One reason for this failure to take into account the supplementary benefits within the research is that the systems are complicated, they vary between different areas of agreement and there is no comprehensive documentation to show what they look like at a specific point in time or how they have changed over time. It is important to have such comprehensive information of the different benefit schemes.

11. Supplementary benefits and economic policy

As earlier mentioned, it is not the state that makes decisions through government and the Riksdag on supplementary benefits. The parties concluding the agreement decide on agreement-based benefits, the trade unions on member insurance schemes, and the individuals themselves on whether to take out private insurance coverage or group insurance (insurance companies and trade union organisations offer the individuals the chance to take out supplementary insurance coverage). The state does, however, influence the space for and the scale of the supplementary benefits in different ways. We list some of the most important channels for state influence both in Sweden and abroad below.

1. Firstly, the state influences supplementary benefits through the establishment and structure of the available social insurance. If the social insurance system is changed, the supplementary benefits are also often changed. For example, should the ceiling be raised within one or more of the social insurance schemes, this would affect the design and scale of the supplementary agreement-based benefits. Benefit above the ceiling represents a large part of the expenditure for many of the agreement-based schemes.
2. Secondly, the state can influence the scale of the supplementary benefits through the structure of the tax system. Charges for agreement-based benefits, insurance fees and benefits from agreement-based benefits have received different tax treatment on different occasions and there are variations between countries.
3. Thirdly, the state can influence agreement-based benefits through direct regulation, for example in the form of a ceiling showing how high the supplementary compensation rate may be without reducing the benefits from the social insurance schemes. One example is the regulations that were introduced for sickness benefit in Sweden at the start of the 1990s.
4. A fourth method, which has not been used in Sweden, is where collective agreements, including those involving agreement-based benefits entered for a specific segment of the labour market, are expanded by legislation to apply to other parts of the sector involved or to the whole labour market.
5. A fifth method, also not used in Sweden, is to legislate for agreement-based insurance schemes to be established (more or less detailed with regard to their terms and conditions).

References

- Edebalk, Per Gunnar, Ståhlberg, Ann-Charlotte and Wadensjö, Eskil (1996), "Avtalsrelaterade trygghetssystem vid sjukdom, arbetskada och förtidspension", in SOU 1996:113, part 2.
- Rein, Martin and Wadensjö, Eskil (1998), "The relation between social and occupational security", in Theodore R. Marmor and Philip R. De Jong, *Ageing, Social Security and Affordability*, Aldershot: Ashgate.
- Sebardt, Gabriella (2005), *Redundancy and the Swedish Model*, Uppsala: Iustus förlag.
- Sjögren Lindquist, Gabriella & Wadensjö, Eskil (2005) "Inte bara socialförsäkringar – kompletterande ersättningar vid inkomstbortfall", *Rapport till ESS*, 2005:2.