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**The Position of Older Workers in
Sweden in the mid-1990s:
Employment and Unemployment,
Policies and Prospects**

A Background Paper prepared for a European Foundation
project led by Alan Walker

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The Position of Older Workers in Sweden in the mid-1990s: Employment and Unemployment, Policies and Prospects

The labour force participation of the older work force, the policies of the government, the employers and the unions, as well as the existing policy framework for handling the exit pressures on the Swedish labour market have been documented in earlier work by Swedish scholars. The pension systems as well as the specific labour market policy, work environment legislation and employment protection rules that exist have been well described in the existing literature. For the situation up to the late 1980s see e.g. Wadensjö 1991 and for a somewhat later period see Olofsson & Petersson 1994.

1. The demographic background: a dramatic increase over the next ten years of the size of 55 - 64 age group

There is a demographic shift in the Swedish age structure and hence the available pool within the population for the labour force. During the years 1985-1995 the number of persons between 40-64 years increased from 1.9 mill. to more than 2,7 mill. During the same period the number of persons between 45-54 increased with 40% percent and this age group amounted to 1,25 million in 1996,

The numbers of persons between 55-64 years will increase dramatically in the next ten years. From 1996 to the year 2000 the age group 55-59 will increase by 130.000 persons and the group 60-64 with 40.000. Between 2000 and 2005 the number of persons in the 55-64 age-group will increase even more. The age group 55-59 will increase by another 36.000 and the 60-64 age group with 130.000.

The total number of persons in the 55-64 age group amount to 879 000 persons and the number of those having an employment reaches 547 000. By the year 2005 the size of this age group will have increased by 350 000, i.e by almost 40%. This is an increase by 35 000 per year during the next ten years. Thus there will be more persons in the older age groups in the future labour force. That is, if this demographic development is not offset by higher exit rates.

The Swedish labour market authorities have calculated the following increase among those in the labour force in the coming ten years. If the age-specific labour force participation rates remain stable for men (at the 1995 level) and that of women increase (as an effect of the rising rates for younger female cohorts) the anticipated increase in the in the older work force will be:

<i>Age-group</i>	<i>Projected Increase 1996-2000</i>	<i>Projected Increase 2001-2005</i>
55-64	200.000	154.000

This dramatic change reflects the impact of the extraordinarily large cohorts born in Sweden during the Second World war and the postwar period. Thus for purely demographic reasons, the situation for the 55-64 year age group will constitute a problem in the labour market and most probably also in the political process in the coming decade.

2. Labour force participation, employment and long term unemployment in the 55-64 age-group

If we look at what has happened in the 1990s we find the following pattern:

a) a declining labour force participation and even more markedly *a falling employment rate*. From 1990 to 1996 the overall employment rate went from 83.1% to 71,6 %, i.e. a decrease of 11,5%. This has also strongly affected the older workers. From 1991 to 1996 the employment rate for the age-group 55-59 fell by 4,2% for women and with 8.8% for men. For the age-group 60-64 the drop in employment rates was 10,1% for men and 7,6% for women.

b) a marked *increase in long term unemployment* for many groups, and not least for the 55+ age group. The unemployment rate is higher for the younger age-groups than for middle-aged and older groups. But among the unemployed the older age-groups have more long-term unemployment. (see table 1)

In 1996 there were about 55.000 unemployed in the 55-64 age group and only 10.000 in different forms of labour market programmes. A large part of these were within the ALU scheme (see below). Given the ongoing age-characteristic processes of exclusion etc. the number of unemployed in the older work force will increase dramatically. The level of employment and unemployment in 1996/1997 is shown in table 1.

The average length of the unemployment period is longer for the older work-force. The average length for the whole group of unemployed is 28 weeks. For those between 55-59 years it is 38 weeks and for those aged 60-64 41 weeks. It has also gradually become more difficult for the older unemployed workers to find a new job at all.

Table 1. Employment and unemployment rate for the 55-64 age group in Sweden 1996

<i>Age-group /and sex/</i>	Employment rate 1)	Unemployment rate 2)	Longterm unemployment rate
<i>Total</i>			
16-64	71,6%	8.1%	38%
<i>Total</i>			
45-54	85,3%	5,0%	48%
<i>Total</i>			
55-59:	75.7%	6,3%	52%
Men	77,2%	7,1%	53%
Women	74,2%	5,4%	51%
<i>Total</i>	49,2%	9,9%	59%
60-64			
Men	52,8%	11.1%	60%
Women	45,7%	8,5%	57%

Source: Labour Force statistics 1996. Tables.

Comments: 1) Gainfully working/employed as percent of population; 2) Unemployed as percentage of labour force; 3) Those unemployed more than 26 weeks among the unemployed

3. Public policies and regulations

Some aspects in the Swedish policy regime have experienced rather marginal changes during the 1990s.

a) The *employment protection* of older workers is in principle still in force. However, it is rather common that trade unions use this legal position of strength to obtain a "trade-off". Unions often accept a retirement package for older workers (as the "price" as well as something good in itself)) in order to save the employment of some young or middle-aged workers (a goal).

From January 1997 it has become easier to employ persons for a specified period, persons that are not being covered the standard employment security rules. At the same it became more difficult for employers to have persons employed as long term substitutes.

Employment security changed from being defined by the age of the employee to the length of employment. In principle this should lower the entrance threshold for older workers in new jobs. Those that are employed part-time has a priority to full-time jobs at the same employer.

ii) The *unemployment benefit*. The unemployment insurance continues as before but the benefits have been cut dramatically, from 90% of the wage level to a compensation rate of only 75%. Later a raise to a compensation rate of 80% occurred.

iii) Sweden has witnessed a *drastic decline in the uptake of part-time pensions*. Until mid-1994 the replacement rate was 65%. Then it was possible to enter the scheme at 60 years of age, and get a pension for up to 50% of the former working time.

Today the replacement rate is only 55%, and the first point of entry is at 61 years. Furthermore it is only possible to get a part-time pension for 10 hours a week (that is at a maximum 25% of the normal work week). These changes have led to a drastic decrease in the number of persons entering the part-time pension scheme. In 1995 and 1996 just one thousand persons each year took part-time pension and there will be even fewer in the future.

iv) There has also occurred a reduction of the numbers of older workers in the *disability pension scheme*. Up till the early 1990s it was possible to qualify for this scheme from purely labour market reasons, that is if you were 60 years and above. Now, the entry into this scheme is once more regulated by, at least in theory, purely medical reasons.

However, the Labour Market Board has calculated that the number of persons with a disability pension will increase due to the increasing size of the older age groups in the coming decade. *If* the age-specific disability pension rates from 1995 apply for coming years the numbers of those getting a disability pension will increase with about 35.000 in the 55-65 group. The effects will be even stronger in 2005 and 2010, leading to 60-70.000 more persons in these schemes.

v) *The ALU scheme, a scheme for "Working Life Development"*, a scheme for subsidized employment is one of the larger schemes in the Swedish repertoire of unemployment policies. This scheme began to operate in January 1993. The ALU scheme is a major policy. It has as many participants as one of the pillars of Swedish labour market policy, the vocational training schemes that are organized by labour market authorities.

The idea is that ALU should keep unemployed persons in touch with the labour market. It is also an important mechanism for keeping the unemployed out of the means-tested social benefits schemes and to qualify them for yet another period of unemployment benefits.

The average number of older persons (55-64) in the ALU scheme was during the 1995/96 close to 6.000 persons per month: open unemployment in this group was on average 36.000 per month. The benefits are on the same level as

the unemployment benefits and are paid either by social security office or the unemployment benefit society.

4. Recently introduced as well as not yet implemented public schemes

a) "Public temporary employment" (the OTA scheme)

In November 1996 the Swedish parliament passed a new law on "Public Temporary Employment". The Swedish acronym is OTA. The Swedish labour market minister coined a new memorable phrase, that older workers were entitled to a "decent final stage in their life" when she suggested the introduction of the OTA scheme. The idea was to construct an acceptable phasing out the older workforce and to keep them out of the unemployment statistics. The background for introducing this and some other schemes in the labour market policy areas was the political goal of the present Government to halve the rate of open unemployment by the year 2000.

Originally the goal of OTA was to have 40.000 participants in the scheme per month. After only a few months this ambitious goal was reduced to 15.000 persons each month in the OTA scheme. During the first half of 1997 the scheme slowly started to catch on. About five thousand per month were engaged. The overwhelming majority, about 90%, were active in job schemes in the local authorities, and the rest in the counties and in the state. This scheme was forced through in rather hurried way, leading to administrative problems and bureaucratic hassle between the labour market authorities and local government.

The criterion for obtaining OTA was that a person between 55-64 years of age must have been registered at the Labour market exchange for two years (i.e. either unemployed or engaged in an "activity", i.e. a labour market program). It was mainly tasks in social service and the care sector that those who became engaged in this scheme were recruited into.

The criteria for creating OTA positions are that they should raise the standards and the quality of care, without interfering with the normal labour market. The basis for creating these positions is an agreement between the authorities and the trade unions in the area.

The trade unions were rather sceptic, seeing this scheme as a threat in specific labour markets. Furthermore many in the labour force, including the long-term unemployed over 55, were also rather sceptic. The advantage of the scheme was the chance of being reintegrated in the labour market again. But on the other hand the added income was marginal, amounting only to 40 to 50 Swedish crowns (SEK) a day, that is. a topping-up of the unemployment benefit of about 7-10 percent for doing a fulltime although in principle lenient job. In this context the unemployment benefit is baptized "activity support".

b) Quality-increasing resource jobs in the public sector - The "Kalmar model"

Another new scheme is an experiment which is dubbed the "Kalmar model". The idea for this scheme came from the social and care services in the city of Kalmar. The plan is to employ (and in practice also to re-employ) long term unemployed persons for up to six months in the public sector in order to increase the quality of care. Those hired will be compensated by the unemployment benefit. The local authority is also expected to add another 10-15 percent in pay, thereby giving the long-term unemployed up to 90% of the standard wage. These persons will be registered as being employed in local government, although they are basically financed by unemployment benefits.

c) Another use of the unemployment benefit has been opened up from July 1997 to the end of 1998. This is an experiment organized in the form of *specific projects* where those unemployed persons that are engaged in the projects will continue to receive unemployment benefits although they are not being available for work in the ordinary labour market.

The schemes under b) and c) are open to all long-term unemployed. There are as yet no indications about their age profiles. It may be expected that older workers will be included in these schemes, although the emphasis will probably be on younger and middle aged groups. This is due not least to the ongoing ageing of the personnel in health and care sectors.

d) Labour market pension

A new scheme of "labour market pension" is in operation since mid-1997. During a limited period, defined as the second half of 1997, it will be possible for long term unemployed workers, to get a "labour market" pension on the level of the unemployment benefit. To qualify for this scheme you must have been registered as unemployed for more than 12 months and be over 60 years of age. It will not be necessary to be "available for work". Those entering this scheme by definition leave the labour force, although they paradoxically receive an unemployment benefit.

e) A de facto disability pension scheme?

There is an unofficial limit in the disability pension scheme that opens up the exit path of "specific and unspecified reasons" for those over 63 years of age. Here the medical causes for granting the pension are interpreted less stringent than the law formally says.

f) Generational job transfer - a Swedish variety of a job release scheme

In the Swedish Budget for 1998 the Swedish government has proposed the introduction of new scheme, "Generational exchange". This is variety of the "job release schemes" that have existed in Britain, Belgium and France. The plan is to help younger unemployed persons to enter the labour market, by subsidizing the exit of an older worker (aged 63 and above). The older worker is getting a pension if the firm hires a young unemployed person between 20 and 35 years of age. The benefit is calculated as 80% of the income used for the calculation of sickness benefits. The upper ceiling for the benefit is SEK 14.400 per month, thus making it a valuable scheme mainly for manual workers and lower white collar employees. A firm that engages in this generational scheme is expected to pay 25% of the state expenditures for each person. The employer can also pay extra to the older worker.

This scheme is only open for application from January 1st to August 31st 1998. As can be seen from the strict age and application limits the impact will be rather marginal. The number of persons still employed at 63 amounts to only 46%

among the men and 39% among the women in the age group. Among the manual workers the employment rate is even lower, thus further reducing the recruitment pool for this scheme,

5. The role of existing early retirement schemes

In 1996 quite a few persons in the 60-64 age group had left the labour force because they had already got a *age-related pension*. Some occupations in the public sector have a retirement age at 63 or for a few occupations even at 60. The total number in 1996 was, according to the data in the Labour force statistics, was 57.000 persons, that is 11,4% of the age group. This is more than twice the number of unemployed in this age group (22,000). (An even larger number of workers in 60-64 age group have left the labour force due to ill health etc, through the disability pension system)

Examples of early retirement schemes in the private sector

In the banking sector we find in many cases a generalized age-specific exit policy. In the largest Swedish commercial bank here are very people employed in the age category above 57 years. This bank has organized a rather generous exit early retirement scheme as well as a policy to support the exit of younger persons, whose training and further education are being supported financially.

Within the metal sector and more generally the industrial sector (pensioning by the help of sectoral pension schemes as well as company trade-offs (and in reality also a mixed financing. Here the exit pattern is more dependent on the firm, its resources and the character of sectoral pension schemes.

Few exact and reliable data exist on the importance of these firm-specific or sector-specific buy-outs and the early retirement schemes in the public sector. However, the pattern is rather widespread, as the employment rate statistics indirectly for the 60-65 age group bears witness to. More than 40% of those still employed at 60 disappear from the employment record before they reach the standard normal retirement age at 65; for women the employment loss rate is about 50% (Cf. Appendix).

Quite a few of those excluded from the labour market as well as from the unemployment benefit system have moved on to long-term unemployment and some do not qualify for the unemployment benefit. In this case they have entered the means tested social benefit schemes, run by local authorities.

(December 1997)

Appendix: Employment rates for the 60-64 age-group 1996 and the first three quarters in 1997.

<i>AGE</i>	<i>Employment rate 1997</i>		<i>Employment rate 1996</i>		<i>Unemployment. Rate 1996</i>	
	Men	Women	Men	Women	Men	Women
55-59			77.2	74.2	7,1	5,4
60	67,0	57,7	64,0	59,9	9,5	9,1
61	54,5	52,8	59,9	54,2	11,9	7,4
62	48,1	44,8	53,4	50,2	10.0	5,7
63	46,4	39,5	47,5	36,0	9,3	9,4
64	38,5	28,5	38,3	27,4	16,3	12,5
60-64			52,8	45,7	11,1	8,5

Source : Labour Force statistics 1996 and 1997 (First three quarters (january-september))

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