

Foresight Future of an Ageing Population - International Case Studies

Case Study 1: Extending working lives in Sweden

Foresight Theme: Promoting productivity

Sweden has the highest labour force participation rates in the European Union for older workers (aged 50-64) and also scores very highly on indices of 'active ageing'. This case study looks at the factors and policies that have influenced this situation.

Context

Sweden, with a population of just over 9.6 million in 2013, is the largest economy in the Baltic region. During a period of strong economic growth, following the Second World War, Sweden was able to develop one of the world's most generous welfare systems. Trade union membership is high (71% compared with an EU average of 26.3%) and unions play an important role in collective agreements and the development of policy.

Sweden's birth rate is relatively high at 1.94 and the ageing of the population as a whole is minimal, with 19.9% of the population aged 65 and over in 2013 rising to 20.3% by 2020 (OECD projections).

Active ageing recognises that if people are to work for a longer period of time, then they will need to be in good physical and mental health, with access to more flexible working arrangements, healthy workplaces, life-long learning and retirement schemes.¹

Measures to extend working lives may address the supply-side, improving the employability of older workers, for example the ability and motivation to work, or the demand side including recruitment policies and the legal and financial framework within which older employment takes place, including pensions and retirement policy.²

A 2004 survey of Swedish workers found that the most important factors determining whether they wanted to, and were able to, work until age 65 were self-rated health, personal finances and the retirement decisions of life partners or close friends. In addition, the working environment, work pace and skills and competencies were associated with whether someone 'could' continue, while the importance of work, working time and management attitudes were associated with whether they 'wanted to' continue.³

History

In recent years Sweden has undertaken a number of initiatives with a primary or secondary intention, or effect, of extending working lives.

¹ Kullander and Nordlow; Eurofound (2013), *Sweden: The role of governments and social partners in keeping older workers in the labour market*.

² Naegele (2015), *Extending working lives*

³ Nilsson, Hydbonn and Rylander, (2011), *Factors influencing the decision to extend working life or retire*, Scandinavian Journal of Work, Environment and Health, 37 (6):473-480

Probably the most important initiative in this respect was the reform of the Swedish pension system in 1998.

Further measures included the reform of employment protection legislation and the introduction of an in-work tax credit in 2007, the reform of sickness benefits in 2008 and the introduction of age discrimination legislation in 2009. Payroll taxes for older employees were abolished in 2007/8 and employers are exempt from paying social security contributions for employees older than 65.

The New-Start programme, introduced in 2007, encouraged the employment of long-term unemployed older people and 'Knowledge Lift', a lifelong learning strategy, aimed to raise the skill levels within the older workforce.

Implementation

A number of factors may, to a greater or lesser extent, have had an influence on extending working lives and the high participation rates for later life employment in Sweden. The most important factor would appear to have been the pension reforms implemented in 1998 which provided a financial incentive to work longer.

Pension reforms (1998)

Pension reforms introduced in Sweden in 1998 apply on a sliding scale to anyone born after 1937 and in full to anyone born in 1954 or later. The reformed state pension has three components. The main part of the Swedish state pension changed from a 'defined benefit' scheme under which a level of pension was guaranteed irrespective of contributions to, at least in part, a 'notional defined contribution' (NDC) scheme under which the future pension received is notionally (arithmetically) dependent on past contributions made, even though the contributions paid are used to fund other people's current pensions (pay-as-you-go).

For this income-based element of the state pension, 16% of salary is taken and recorded in a notional individual account to calculate future pension benefits. The pension benefit received depends on the years of contribution made, so is improved by working longer, but it is also dependent on the state of the Swedish economy. The scheme is self-funding and contributions made are currently managed in four AP (National Pension) Funds. The age at which you can start receiving this income-based element of the state pension is flexible but is currently at least 61, possibly rising to 63 by 2019. The longer the receipt of this pension is deferred the more is received.

A further 2.5% of pensionable income is invested in a 'premium pension', a private mutual fund of the individuals choosing regulated by the Premium Pension Authority. In addition to the income-based and premium pensions, a guaranteed, means-tested, pension, funded by the government, provides a minimum pension for anyone aged 65 years and over who has been resident in Sweden for at least 40 years and has little or no income.

Most Swedes (90% of wage and salary earners) are also members of an occupational pension scheme, the leading one of which (ITC) converted from a defined benefit to a defined contribution scheme in July 2007.

The labour force participation rate for men aged 55-64, which had been in decline since the 1960s, started to increase again from about the time that the 1998 pension reforms were under discussion

and being introduced. This may be an indicator of the effectiveness of the reforms as a driver towards extending working lives.

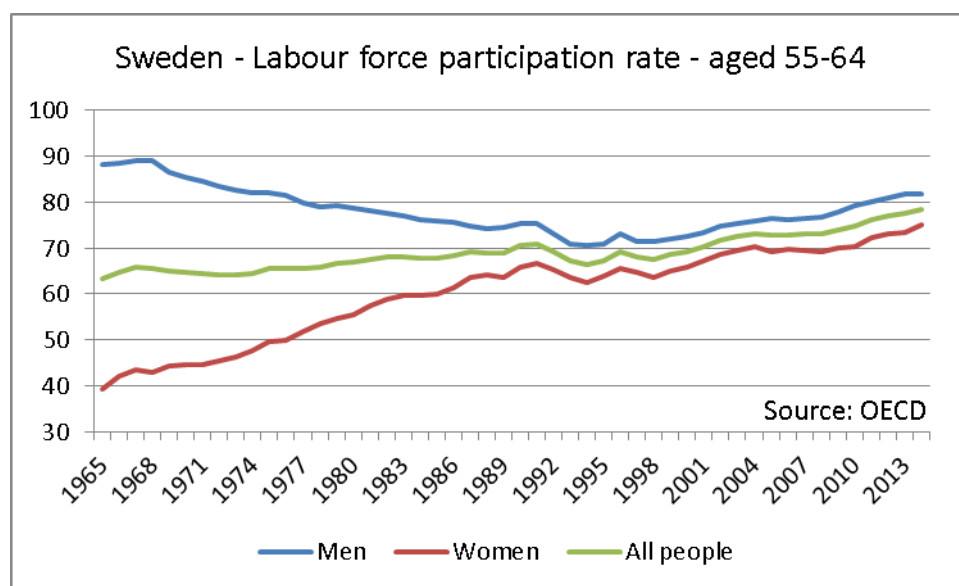


Figure 1

A 2008 study, controlling for education, lagged income and other demographic factors, demonstrated that, following the pension reforms, those born after 1940 and still in employment were noticeably less inclined to retire between the ages of 60 and 64.⁴

The pension system does not contain a fixed retirement age. Pensions cannot be drawn before the age of 61 and there is no legal right for employees to work after the age of 67, however the reformed pension system makes it possible and financially advantageous to gradually leave the workforce after the age of 65. The age of 67 has become a societal norm at which retirement should take place⁵ and, in 2012, the European Court of Justice confirmed that the absence of a right to work beyond the age of 67 in Sweden was not age discriminatory.

There has been a gradual upward shift in the de facto retirement age and while 83% of those born in 1938 started to take up an old age pension at age 65, this had fallen to 61% for those born in 1948.⁶

Tax credit changes (2007/2010)

In January 2007, Sweden introduced a system of in-work benefits in the form of a tax credit for those in employment but with low incomes. The benefit was increased in 2008 and 2009. No tax needs to be paid on work income up to yearly earnings of about 39,000 SEK and a further 25 % of income is tax exempt, up to a limit 116,000 SEK per year. Since 2010, the credit has been made more generous for workers aged 65 and over.⁷

⁴ Glans E (2008), *Retirement patterns during the Swedish pension reform*

⁵ European Commission (2012) - European Employment Observatory Review: *Employment Policies to Promote Active Ageing 2012*

⁶ Albin, Bodin and Wadensjö, 2015, *National Report: Sweden* In: Hasselhorn and Apt (eds) *Understanding employment participation of older workers*

⁷ Kolm and Lazear, 2010, *Policies Affecting Work Patterns and Labor Income for Women* In: Freeman et al (eds), *Reforming the Welfare State: Recovery and Beyond in Sweden*.

New-Start programme

Unemployment among Sweden's older population (aged 55-64) rose significantly following the financial downturn of 2008, despite the introduction in January 2007 of the New-Start programme, a scheme to make payments to employers to encourage them to hire people who have been unemployed for a long time.

Since 2010 the fee to an employer, for employing an unemployed person aged 55 and over, has been paid for a longer period, twice the standard period of time, up to a maximum of ten years. This was coincident with a noticeable drop in the unemployment rate for the 55-64 age group [Figure 2].

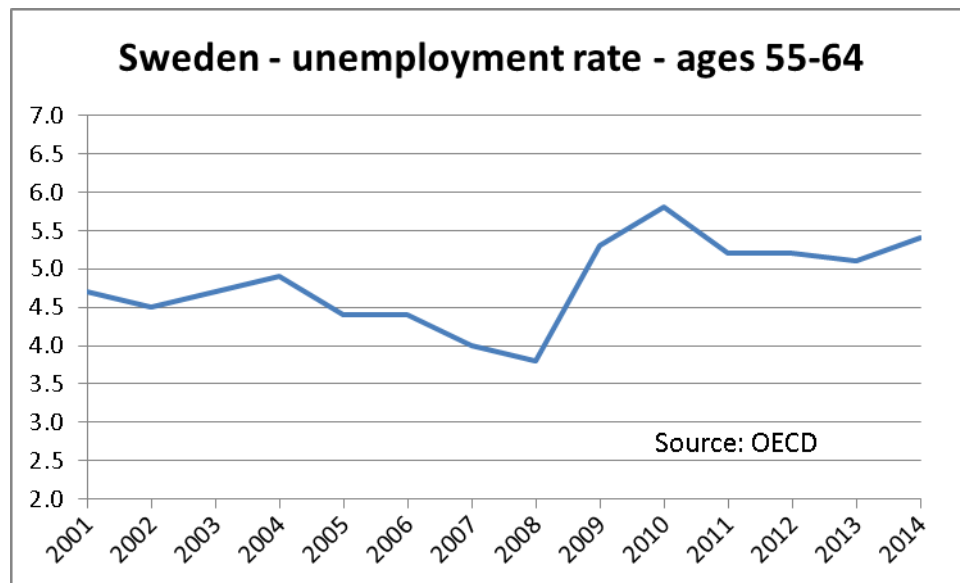


Figure 2

Education and training

The Knowledge Lift (KL) (1997-2002)

The Knowledge Lift was a large scale educational programme aiming to raise the skill level of low skilled workers. It was the most ambitious programme ever undertaken and more than 10% of the workforce participated. The focus was on general skills, for example English, Swedish and mathematics, but also included the possibility of vocational courses and work placement. An early evaluation found that 75% of participants in the initial phase of the project were involved in work or further study one year after the programme had ended.

Research has also demonstrated the positive effect of midlife university education in extending the working life of Swedish workers. For a sample of workers aged 42-55 at the time of enrolment, the period of higher education was seen to increase labour market survival rates, aged 61-66, by 5 percentage points.⁸

Working conditions

Working conditions may be a deciding factor for older workers choosing between work and retirement. According to the Swedish Work Environment Act, "working conditions shall be adapted to people's differing physical and mental aptitudes and the employer will make allowance for the employee's special aptitudes for the work by modifying working conditions or taking other appropriate measures. In the planning and arrangement of work, due regard will be paid to the fact

⁸ Stenberg and Westerlund (2013), *Education and retirement: does University education at mid-age extend working life?* IZA Journal of European Labor Studies 2013, 2:16

that individual persons have differing aptitudes for the tasks involved". In 2004, in an attempt to promote health and safety for older workers, the Swedish Work Environment Authority and the National Institute for Working Life published a guide 'Adjustment of working conditions with a perspective of the older workforce'.¹

Age discrimination

The Swedish Discrimination Act, 2009, prohibits discrimination based on sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation or age. The act applies to essentially all areas of Swedish society, with the exception of age, where the prohibition is limited to education and the labour market. A field experiment⁹ carried out in 2011 however demonstrates continued age discrimination in sales and catering employment in Sweden and, in 2012, the default retirement age of 67 was ruled not to be age discriminatory by the European Court of Justice.

Impact

Changes in labour force participation rates for Swedish workers aged 55-64 [Figure 1], and academic research (Glans, 2008)⁴ seem to confirm the effectiveness of the 1998 Swedish pension reforms in extending working lives. This is probably the most important factor encouraging older Swedish workers to continue in employment.

Research¹⁰ evaluating the effectiveness of the 'Knowledge Lift' programme seems to confirm the effectiveness of that programme for particular groups. Knowledge Lift led to an 80% rise in adult education enrolment and was effective in improving employment for younger men but had a lesser positive effect for younger women. The effect for older people depended very strongly on the type of course followed.¹⁰

The effects of the New-Start programme to counter long-term unemployment are confounded by the global economic downturn but there is some indication that the age-specific actions, doubling the period for which employer benefits linked to unemployed workers ages 55 and over were paid, had a positive effect on unemployment rates for the over 55s.

⁹ Ahmed, Andersson and Hammarstedt, 2011, *Does age matter for employability? A field experiment on ageism in the Swedish labour market*

¹⁰ Albrecht, Berg and Vroman (2007) - *The aggregate labor market effects of the Swedish knowledge lift program*

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'Knowledge Lift' in Sweden - additional information

The Knowledge Lift (KL) (1997-2002)

The Knowledge Lift, also known as the Adult Education Initiative (AEI) was a large scale educational programme in Sweden aiming to raise the skill level of low skilled workers. It was the most ambitious programme ever undertaken and more than 10% of the workforce participated. The focus was on general skills, for example English, Swedish and mathematics, but also included the possibility of vocational courses and work placement. An early evaluation found that 75% of participants in the initial phase of the project were involved in work or further study one year after the programme had ended.

The Knowledge Lift programme was particularly targeted at low-skilled unemployed workers but a limited number of employed individuals could also apply for educational funding, provided that their employer would hire a long term unemployed person in their place.¹ This is similar to the 'JobRotation' scheme that operates in Denmark.

Knowledge Lift was administered through the existing Swedish municipal adult education system (KOMVUX). The objective was to raise the skill level of low-skilled adult workers to a 'medium' level, roughly corresponding to what has, since 1995, been the lowest level upper secondary school leaving diploma in Sweden.²

The courses lasted for half a year and ran twice in each year. Participation was a matter of free choice, was free to the participant and was sometimes organised through trade unions. Some participants were eligible for 'special education support' payments (UBS), at a level equivalent to unemployment benefit.²

Sweden spent SEK3.5 billion (£295 million) per year on the Knowledge Lift programme and there was no rationing by availability.²

Research³ evaluating the effectiveness of the 'Knowledge Lift' programme seems to confirm the effectiveness of that programme for particular groups. Knowledge Lift led to an 80% rise in adult education enrolment and was effective in improving employment for younger men but had a lesser positive effect for younger women. The effect for older people depended very strongly on the type of course followed.³

One criticism of this significant and sudden expansion in training available to unskilled and low-skilled unemployed and employed workers was that it drew teachers away from the secondary education sector.

¹ Sternberg A, (2003) *An evaluation of the adult education initiative relative labor market training*, Umeå University

² Albrecht, van den Berg and Vroman (2005) *The Knowledge Lift: The Swedish adult education program that aimed to eliminate low worker skill levels*, Institute for the Study of Labour

³ Albrecht, van den Berg and Vroman (2007) - *The aggregate labor market effects of the Swedish knowledge lift program*

In 2002, following the termination of the Knowledge lift programme there was a permanent expansion of 50,000 places in adult education in Sweden. The 'special education support' payments (UBS) were replaced by a new form of study allowance, the 'recruitment grant', with slightly different conditions.¹

In the UK, similar schemes are available but on a smaller scale and with a different level of choice. It may be possible to get a training allowance as part of the Work Programme (which replaced the New Deal programme). This provides support, work experience and training for up to two years to help someone to find and stay in work. Anyone who has been getting Jobseeker's Allowance for more than three months, or getting Employment and Support Allowance, may be asked to join the Work Programme.⁴

The OECD emphasise the benefits to both countries and individuals of investing in education and training but the proportion of people in the UK who are neither employed nor in education or training (NEET) has been larger than the OECD average – by about 10 percentage points – among those without upper secondary education, since 2006,⁵ and the gap in literacy skills in the UK between young people neither employed or in education and those in work is the widest of any Western nation.⁶

⁴ Department for Work and Pensions (2012) *The Work Programme* European Union: European Social Fund

⁵ OECD (2013) *Education at a Glance 2013: United Kingdom*

⁶ OECD *Skills Outlook 2015*