

## The Swedish social insurance system for the self-employed

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Magnus Lindskog\*

## **The Swedish Social Insurance System for the Self-Employed**

\*Magnus Lindskog, a Swedish researcher on labour market policy, prepared the study during his stay at the WZB.

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## **Preface**

In most European countries, self-employment (outside of agriculture) has been increasing since the 1980s. This has been accompanied in most countries by a growing number of 'new self-employed', many of whom have come directly from unemployment and set up small companies in the service sector with only a small amount of capital. It is also associated with a stronger labour market dynamic, so that more frequent transitions into and out of self-employment are becoming an element in the employment histories of a growing share of each national population. This has created new challenges for labour market and social policy. It raises the question of whether and to what extent the social insurance system for the self-employed in the individual countries is working and is capable of dealing with the new situation.

This question about the provision of social protection for the self-employment is the starting-point for a project entitled 'The new self-employed in European perspective: the structure, dynamic, promotion and social protection of the new self-employment', which is being supported by the Hans-Böckler-Stiftung. The project has been running at the Wissenschaftszentrum Berlin since May 2004. It is being directed by Günther Schmid and Karin Schulze Buschoff and will run for two years. Germany, Great Britain, the Netherlands, Italy and Sweden comprise the group of countries selected in order to investigate self-employment in the context of different welfare state regimes. In addition to quantitative/statistical analyses of the structure and dynamic of self-employment in these countries, a methodology based on expert interviews and country studies will also be adopted as a means of fully capturing social protection. In particular, this method should provide information on national institutional arrangements and problem situations that cannot be captured by means of representative surveys. The following paper by Magnus Lindskog is one of the five country studies that describe in detail the national social insurance systems for the self-employed and compare them with the systems for dependent employees. It is also planned to use the country studies as a basis for a comparative five-country study (Social Security in Europe in Comparative Perspective).

Karin Schulze Buschoff

## **Abstract**

The increasing number of smaller and relatively short-lived companies and the growing number of individuals working in the 'grey zone' between dependent employment and self-employment present several challenges for the social security system.

Social insurance in Sweden is controlled by the state and uniform throughout the country, and it consists of employment-conditional as well as residence-based benefit schemes. In general, there is no link between the two types of schemes; the former offers earnings-related benefits and the latter provides a basic level of protection to individuals with low or no income. This paper focuses on the social earnings-related protection for self-employed persons, with the social security system for employees as a point of reference. It argues that universalism is a central feature of the Swedish social protection system, and that it has been gradually extended to cover the self-employed according to largely the same principles as those for employees. For each group, however, there are slightly different regulations related to when a person is entitled to benefits and how the daily allowances are calculated. In particular, the loss-of-income principle implies that it is central for the self-employed person to 'earn a salary' since revenues that are reinvested in the company are not considered when calculating the daily allowances. The study highlights the difficulty to design a fair system that considers entrepreneurs as workers in need of protection, their role on a competitive market, and that takes into account that self-employed persons generally have more control over their working situation than employees do.

## **Zusammenfassung**

Die steigende Anzahl kleinerer und oft relativ kurz bestehender Betriebe sowie die wachsende Grauzone zwischen abhängiger Beschäftigung und Selbstständigkeit stellen das System der sozialen Sicherung vor bestimmte Herausforderungen. Die Sozialversicherung in Schweden wird vom Staat kontrolliert, sie ist innerhalb des Landes einheitlich geregelt und besteht sowohl aus einem beschäftigungsabhängigen System als auch aus einem auf dem Prinzip der Einwohnerschaft basierenden System. Generell besteht zwischen diesen beiden Systemen der Sozialversicherung kein Zusammenhang. Das erste System bietet Sozialleistungen im Verhältnis zum Einkommen, das zweite sorgt für einen grundlegenden sozialen Schutz der Individuen, die über kein oder nur ein geringes Einkommen verfügen. Der Schwerpunkt dieser Studie liegt auf dem einkommensabhängigen System für Selbstständige im Vergleich zu abhängig Beschäftigten. Es wird argumentiert, dass Universalismus ein zentraler Bestandteil des schwedischen Systems der Sozialen Sicherung ist, welches schrittweise erweitert wurde, um Selbstständige zu weitgehend gleichen Bedingungen wie abhängig Beschäftigte zu erfassen. Nichtsdestotrotz bestehen zwischen den beiden Beschäftigungsgruppen leichte Unterschiede bezüglich der Bedingungen unter denen soziale Leistungen gezahlt werden und bei der Berechnung der Höhe der täglichen Ansprüche. So ist es für Selbstständige wichtig, einen Teil der Einkünfte als „Gehalt“ zu

deklarieren, da betriebliche (Re-)Investitionen nicht in die Berechnung der täglichen Ansprüche eingehen. Die vorliegende Studie verdeutlicht die Schwierigkeiten, ein faires System zu entwickeln, welches Selbstständige als schutzbedürftige Erwerbstätige betrachtet, ihre Rolle in einem wettbewerbsgeprägten Markt nicht außer Acht lässt und außerdem berücksichtigt, dass sie in der Regel ein höheres Maß an Kontrolle über ihre Arbeitssituation haben als abhängig Beschäftigte.



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## Introduction

The twentieth century in Sweden was characterised by an increase in employment relative to self-employment as the agricultural society became increasingly industrialised; by the 1950s, long-term employment was the dominant form of employment. Over the past decades the share of self-employed farmers has continued to decrease, while self-employment within non-traditional sectors has emerged, in particular within sectors such as education and research, financial and company services, and child care and care for the elderly.<sup>1</sup> Today's firms are often less stable than traditional farming business, many of them shutting down only a few years after they started. It also has become common to run a business on the side, in addition to gainful employment.

Two features of the 'the new company', according to a definition by the Swedish Ministry of Industry, Employment and Communications, are that it is smaller (in terms of number of employees) and relatively short-lived, sometimes existing only for the duration of a one-off assignment (Näringsdepartementet 2003). Another trend on today's labour market is the increasing number of individuals working in the 'grey zone' between employment and self-employment. These ongoing structural changes present several challenges for all systems in society, including the social security system.

Although social security systems in Europe are highly developed, small entrepreneurs often do not enjoy a good coverage against important personal risks (sickness, business failure, unemployment). As a result, entrepreneurship may often be the less attractive career path.<sup>2</sup>

If this statement is correct, there are at least two reasons for policymakers to worry: Firstly, entrepreneurs play a key role in employment, economic growth and public finances; secondly, the social security net excludes a sizable and increasing share of the labour force. Although entrepreneurship is always linked to some risks, fair minimum social security coverage could lower the barrier for would-be entrepreneurs and ensure that entrepreneurs do not fall outside the system. This paper focuses on the social risk aspects rather than on the attractiveness of self-employment. More specifically, the objective is to account for the level of protection offered to the self-employed, with the social security system for employees as a point of reference.

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1 Between 1990 and 2001 the number of entrepreneurs within education and research increased by 129% to 3,200; within financial and company services the increase was 85% to 58,700; and within the care sector the number was up by 59% to 8,600 (Statistics Sweden online data).

2 From the European Commission's 'Enterprise Action Plan' (Key Action 4) Web site: [http://europa.eu.int/comm/enterprise/entrepreneurship/action\\_plan/ap\\_04.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_04.htm)

The scope of this paper has certain limitations. Firstly, self-employment should be understood as (one-person) private companies; other company forms such as trading companies and joint-stock companies are excluded from the analysis. Secondly, this study is restricted to a presentation of the public compulsory social security system; private insurance arrangements are excluded. Moreover, the Swedish system distinguishes between residence-based and employment-based schemes. In general, the former are financed out of national funds and provide basic social protection irrespective of whether the individual is working or not. The latter are financed largely through social insurance contributions and provide earnings-related benefits.<sup>3</sup> The residence-based schemes are presented only briefly in order to provide an overview of the basic protection; the employment-based schemes are closely examined in this study.

The paper is structured as follows: The first section presents general information about the Swedish social security system. This is followed by a section highlighting differences in the system for self-employed people in relation to employees. Section 3 discusses certain aspects of the social security system in practice; it is followed by some brief remarks on the system's universalism versus flexibility and free-choice arrangements in Section 4. Section 5 presents concluding remarks.

## **1 General information about social protection in Sweden<sup>4</sup>**

In the middle of the nineteenth century Sweden's process of industrialisation began, and, as demands for social reforms grew, social security as we know it today began to emerge. This development took time, however – more than a hundred years. At the end of the nineteenth century, people started to come together and found what were known as sick benefit societies to support each other in cases of emergency. It was not until 1931 that these societies were approved by the state and called health insurance funds, receiving state funding for their operations. Today's Social Insurance Office (Försäkringskassan) first came into existence in 1955. From then on everyone who lived or worked in Sweden was to be covered by social insurance – an insurance that draws from compulsory contributions and taxes and that entitles one to social welfare when facing certain social risks. Throughout the twentieth century reforms were gradually introduced, and many improvements were made. Some of the most important changes are listed below.

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3 A number of smaller insurance schemes, which are financed through premiums and the like and/or yields from funds (e.g. voluntary pension, voluntary sickness cash-benefit insurance, road traffic injury annuities, voluntary occupational injury insurance, small-business insurance and seafarer's pension), are beyond the scope of this paper.

4 The facts in section 1 are mainly collected from the Social Insurance Office's Web site: [www.fk.se/privatpers/](http://www.fk.se/privatpers/)

### **Milestones in the twentieth century**

- 1901 Act on compensation in the event of an accident at work
- 1914 National old-age pension act
- 1948 Child allowance
- 1955 National health insurance with income-related sickness benefit and subsidised health care
- 1955 Employment injury insurance
- 1960 ATP, the national supplementary pension
- 1974 Parental insurance
- 1977 Work injury insurance
- 1992 Rehabilitation allowance
- 1999 The new pension system

*Source: Social Insurance Office's Web site<sup>5</sup>*

Social insurance in Sweden is controlled by the state and uniform throughout the country.<sup>6</sup> The local public Social Insurance Offices have the primary responsibility of ensuring that those at risk receive the benefits and allowances to which they are entitled. The Premium Pension Authority (PPM) shares the responsibility for the administration of the pension system. The responsibility of ensuring that the unemployment scheme functions according to the objectives of the Swedish government and the Riksdag (Swedish Parliament) is shared by the unemployment insurance funds, the Public Employment Services (PES), the Swedish Labour Market Board (AMS) and the Swedish Unemployment Insurance Board (IAF). The ultimate responsibility at government level for legislative and budgetary issues relating to most of the social insurance schemes lies with the Ministry of Health and Social Affairs. The corresponding responsibility for unemployment insurance lies with the Ministry for Industry, Employment and Communications.

Social insurance is mainly financed through social security contributions, general pension contributions and national old-age pension contributions, with the remainder mostly coming from taxes and the yield on investments in the National Swedish Pension Fund.<sup>7</sup> The contribution base for social insurance contributions is made up of the total salaries for employees and the earned income of self-employed people. It is paid by the employer and the self-employed person, respectively. Table 1 presents the level of contributions paid by employers for their employees and the payroll taxes paid

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5 [www.forsakringskassan.se/sprak/eng/utveckling/](http://www.forsakringskassan.se/sprak/eng/utveckling/)

6 For practical reasons, the term social insurance will refer to social protection related to the risks of sickness, work injury, parenthood and old age.

7 If the premium pension scheme is not counted, approximately five-sixths of the financing in 2000 came from contributions.

by the self-employed. The insured party contributes with a general pension contribution of 7% of his or her earnings to the pension system (including any payments from the social insurance system and unemployment insurance). The other components of the public social insurance system do not involve contributions by employees. Members in a voluntary earnings-related unemployment insurance scheme pay a membership fee of around 10 euros per month.<sup>8</sup>

**Table 1. Social security contributions 2005 (percentage of gross income)**

	Employers' contributions	Payroll taxes paid by the self-employed
Old-age pension*	10.21%	10.21%
Survival pension	1.70%	1.70%
Health insurance**	10.15%	11.12%
Parenthood insurance	0.68%	0.68%
Occupational injury insurance	2.20%	2.20%
Labour market contribution	4.45%	1.91%
General wage contribution	3.07%	3.07%

Source: Swedish National Tax Board Web site<sup>9</sup>

\* The insured party pays a general pension contribution of 7% of his or her wage to the pension system (plus any payments from the social insurance system and unemployment insurance). This contribution is paid for incomes up to 8.07 times the income base amount, which is the highest income for which pension is credited.

\*\* The self-employed can choose a waiting period of 3 or 30 days in their health insurance scheme, and the more days the lower the contribution. For self-employed persons choosing 3 days the contribution is reduced to 9.25%, and for 30 days it is 7.42%, with the total social security contribution dropping to 28.33% and 26.50%, respectively.

## 1.1 Residence-based and employment-based schemes<sup>10</sup>

Swedish residents from the age of 16 are entitled to residence-based benefits such as child allowance, housing allowance and allowance for medical expenses. Individuals working in Sweden are also covered by compulsory employment-conditional benefit schemes. The exception to the rule on compulsory membership is the earnings-related component of the unemployment insurance scheme, which is voluntary, albeit primarily financed through taxes.<sup>11</sup>

8 The exact amount varies slightly between different unemployment insurance funds.

9 [www.skatteverket.se/infotext/arbetsgivare/socialavgifter.html](http://www.skatteverket.se/infotext/arbetsgivare/socialavgifter.html), 2005

10 The amounts referred to in this section are collected from the Social Insurance Office's Web site: [www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php](http://www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php)

11 In 2003, 88% of unemployment benefit costs were covered by government grants, with the remainder coming from the unemployment insurance funds' own resources, that is, from financing fees (IAF 2004).

The principle stipulating that the size of the remuneration should be adapted to the income previously earned was established in full with the introduction of the universal earnings-related old-age pension system in the 1960s (ISSA 2001). The earnings-related sickness insurance system was introduced in 1974, and today this principle is applied to all components of the social security system, including parental insurance, sickness insurance, work injury insurance, disability pensions, unemployment insurance and old-age pensions. The basic benefit levels stipulated by the residence-based schemes are generally fixed by the government and/or linked to the price base amount. This is an amount that is fixed by the government and adjusted annually to the shifts of the general cost level, based on figures provided by Statistics Sweden (SCB). The price base amount has various uses, including ensuring that sickness benefits, study support, etc., do not decline in value because of an increase in the general price level (inflation). The current amount (in 2005) is SEK 39,400.

In general, there is no link between the residence-based and the employment-based schemes; the former provides a basic level of protection (a 'top-up benefit') to individuals with low or no income. There are, however, a few exceptions: All parents are entitled to a guaranteed level of parental insurance; anyone who has not managed to earn an adequate pension is ensured a top-up guarantee pension; and sickness/activity compensation for individuals with reduced working capacity is paid as an income-related benefit and as a guaranteed benefit. The unemployment insurance scheme also consists of one component providing guaranteed basic protection and one earnings-related component. The residence-based benefits topping up earnings-related schemes are presented in the relevant sub-section of the central part of this paper. A brief overview of the main remaining residence-based schemes is presented below.

## Residence-based schemes for families and children

Parents receive a *child allowance* for each child under the age of 16 (SEK 950 per month in 2005 for the first child<sup>12</sup>). If there are three or more children the family is entitled to a large-family supplement. The child allowance is replaced by an extended allowance after the child turns 16 as long as he or she continues studying. Families with children under the age of 19 can apply for a *housing allowance for families with children* (the age limit is extended for children still studying). The allowance is designed to enable financially weak households to live in adequate and sufficiently spacious accommodation. The housing allowance is made up of two components: a contribution towards the housing costs and a separate grant for the children living in the home. Families with children can obtain both the housing contribution and the special children's grant. The amount payable depends on the number of children, the cost and size of the accommodation and the household's income. Young people aged 18–28 who have no children also can receive the housing contribution. The social insurance

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12 The allowance increases with each additional child; families with six children are entitled to SEK 8,614 per month.

system also includes a *care allowance for handicapped children* when a parent has to give up work in order to care for a sick or handicapped child at home (the amount corresponds to basic pension). If marriages or relationships break up, the children are entitled to maintenance allowance from the parent not taking care of the children. If that obligation is not fulfilled or if the level of the allowance is insufficient, the Social Insurance Office may pay *maintenance support* (SEK 1,173 per month in 2005) to the parent in custody of the child. In such cases the parent liable for maintenance must pay the debts of maintenance to the Social Insurance Office.

### Residence-based schemes during sickness and disability

Individuals aged between 19 and 65 may qualify for *disability allowance* if they require third-party assistance that is demanding in terms of time in order to manage in day-to-day life, work or studies. Depending on the need for assistance and the amount of the extra costs involved, the benefit is payable based on different percentages of the price base amount (36%, 53% or 69% of the price base amount per year in 2005). Severely disabled persons requiring personal assistance to help them manage in their day-to-day life are entitled to *assistance allowance*. This allowance corresponds to 62.5% to 250% of the price base amount. There is also a *car allowance* for individuals who experience considerable difficulty as a result of permanent disability in getting around on their own or using public transport. Parents with a disabled child also may be entitled to car allowance in some cases if they need the car to travel somewhere with the child. The allowance is a subsidy for the purchase and/or adaptation of a motor vehicle, and it can be re-applied for every seven years.

### Residence-based schemes for older persons

Pensioners may be able to get a means-tested *housing supplement for pensioners*. Older persons with a low pension, for example due to a short period of residence in Sweden, may also be entitled to *maintenance support for the elderly*. The size of these two supplements is based on accommodation costs and income. For persons who have given up work for at least six years in order to care for a sick or disabled child, there is a *special pension supplement* of 5–50% of the price base amount. Recipients who are not entitled to full national basic pension have their pension supplements reduced to the same extent that the national basic pension is reduced.

## 1.2 Defining benefit levels<sup>13</sup>

Before turning to the individual earnings-related schemes, I should clarify a few concepts and methods that are central to understanding the procedure for calculating benefit levels. The employment-based benefits are earnings-related, which implies that there is a system of individual adjustment according to the loss-of-income principle. More specifically, the income base, which is applied to calculate the benefit level, is adjusted to the work income of the insured person. The income base applied to calculate the earnings-related allowances for the economic risks of sickness, work injury, disability and parenthood is called the sickness-qualifying income (SGI). For an employee, SGI is based on the individual's gross wage income. For a self-employed person, it is based on net revenues from business activity. Maximum levels of SGI are adjusted to price developments through its link to the price base amount (SEK 39,400 in 2005). Hence, there is a certain element of indexation in the calculation of the earnings-related benefits as well. The price base amount is also applied in order to decide on the minimum income that is required in order to qualify for earnings-related benefits. Individuals with incomes below this level are not entitled to any earnings-related benefits. Within the earnings-related pension system, the basis for pension rights is every insured party's pension base.<sup>14</sup> In principle, all declared taxable income, including income from employment, income from other gainful employment (self-employed persons, etc.), fees, taxable emoluments, certain social insurance benefits and so on, confers pension rights. The pension base is adjusted to income developments through its link to the development of the income base amount (SEK 43,300 in 2005).<sup>15</sup> Finally, the earnings-related unemployment insurance is based on previous income, and the minimum (i.e. the non-earnings-related part) and maximum amounts are fixed by the government.

## 1.3 The economic risk of sickness, work injury and disability<sup>16</sup>

There are two types of cash benefits related to sickness: sick pay and sickness benefit. For employees who have an open employment contract or a fixed-term contract with a

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13 The amounts referred to in this section are collected from the Social Insurance Office's Web site: [www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php](http://www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php)

14 See Section 1.5.

15 See Section 1.5 for further information about the link between the income base amount and the pension allowance.

16 The amounts referred to in this section are collected from the Social Insurance Office's Web site: [www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php](http://www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php)



duration exceeding one month, the legal framework for sick pay applies from the first day of employment. For other employees, the law applies after 14 days of employment. Several periods of employment by the same employer can be added together. During the first 14 days of illness (excluding the first, which is a qualifying day for which no payment is made),<sup>17</sup> employees are entitled to *sick pay* from their employer.<sup>18</sup> For periods of sickness longer than 14 days, the insurance office pays sickness benefit.<sup>19</sup> In certain cases, if the employer/insurance office judges that a person is able to work but is unable to get to work by normal means, he or she may qualify for a *travel allowance* instead of sick pay/sickness benefit. The employer/insurance office will then pay a reasonable allowance for additional expenses.

Sick pay/sickness benefit is also paid (according to the same principles) within the framework of *work injury* compensation. This insurance covers persons who are injured at work or on the way to or from work. If as a result of an injury a person no longer can work or receives less earned income than previously, he or she may also qualify for an *annuity*.<sup>20</sup> If a person dies as a result of a work injury, his or her surviving spouse and children under the age of 18 will be entitled to an annuity.<sup>21</sup>

While ill, all gainfully employed individuals (i.e. no exemptions) in Sweden with an SGI exceeding 24% of the price base amount (SEK 9,500 in 2005) are entitled to earnings-related cash benefits for loss of income, which can be up to 7.5 times the price base amount (SEK 295,500 in 2005).<sup>22</sup> The level of sick pay/sickness benefit corresponds to 80% of SGI divided by 260 days (based on a five-day week).<sup>23</sup> It is also possible to receive hourly-based benefits. For sick pay/sickness benefit recipients who are paid by the day or the hour, the benefit level during the first 14 days is based on daily or hourly income. As from the fifteenth day, however, it is based on calendar days

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- 17 Between 1 July 2003 and 31 December 2004, sick pay was received during the first 21 days.
  - 18 The self-employed receive sickness benefit from the Social Insurance Office during the first 14 days (see Section 2.1).
  - 19 As from 1 January 2005, employers are obliged to finance 15% of the sickness benefit received by their employees after the fourteenth day of sickness, if it exceeds SEK 80,000 per year. The obligation lasts as long as an employee receives full-time benefits from the insurance office, and ends as soon as he or she starts work again, irrespective of whether it is full-time or part-time employment. The regulation does not include rehabilitation benefits. In addition to the free amount below SEK 80,000, the system also includes a maximum-cost guarantee corresponding to 4% of the company's total wage costs. One-person firms are not considered employers and thus are not affected by this regulation.
  - 20 The annuity compensates the individual for the income lost as a result of the injury. If the individual also is awarded sickness or activity compensation, the latter will be coordinated with the annuity.
  - 21 The size of the annuity depends on the earned income of the deceased person. The annuity will be coordinated with the survivor's pension and the survivor's support for children.
  - 22 The benefits are taxable.
  - 23 Between 1 July 2003 and 31 December 2004 it was 77.6% of SGI.

(365) for everyone. Sick pay/sickness benefit may be drawn at 25, 50, 75 or 100%, depending on to what extent a person is unable to work. An individual earning the minimum income entitling one to benefits (SEK 9,500 in 2005) receives SEK 21 per day (80% of 9,500 divided by 365). It is important to note, however, that this is not a guaranteed minimum level. Individuals earning less than 24% of the price base amount are not entitled to any benefits from this scheme. Those earning incomes above 7.5 times the price base amount receive a daily payment of SEK 648 (80% of 295,500 divided by 365).

The main rule is that the previously fixed SGI ceases to apply if a person no longer has income from work. Nevertheless, it is possible to keep the SGI during unemployment by registering as a jobseeker with the employment office within three months of becoming unemployed. SGI is also protected for parents staying home with children under the age of one year, as well as for mothers leaving their job up to six months before the expected date of birth. After the child's first birthday the SGI is lowered, which results in reduced sickness compensation.<sup>24</sup>

The benefit amounts for three other schemes are calculated in the same way as the sickness benefits.<sup>25</sup> Firstly, a person who is suspected of having an infectious disease or who is carrying (or suspected of carrying) an infection without being ill, and who is still fit for work, may be able to receive benefits from the insurance office in the form of a *disease carrier's allowance*. Secondly, sickness insurance also includes the *closely related person's allowance* for people who give up paid work in order to care for a closely related person who is seriously ill. This benefit is payable for a maximum of 60 days. Thirdly, *rehabilitation compensation* includes a rehabilitation cash benefit based on the same calculation as that used for sickness benefits.<sup>26</sup> Individuals taking part in a work-oriented rehabilitation plan are eligible for this benefit for a maximum period of one year.

If a person's capacity for work is reduced by at least 25%, either permanently or for a period longer than one year, he or she may be eligible for *activity compensation* (for those aged 19 to 29) or *sickness compensation* (for those aged 30 to 64).<sup>27</sup> The reduction in working capacity must be due to illness or some other impairment in physical or mental performance. As for compensation during sickness, the compensation may be in full, three-quarters, one half or one-quarter, depending on to what extent the capacity for work is reduced. Unlike the compensation during sickness, the sickness/activity compensation is paid both as an income-related benefit and as a guaranteed top-up benefit. Another difference is that the level of earnings-related

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24 This lowering of the SGI does not, however, affect the level of the parental benefits.

25 The SGI is applied to calculate the benefits received from the parental insurance, which is discussed in Section 1.4.

26 In addition to cash benefits, rehabilitation compensation includes other allowances intended to promote the occupational rehabilitation of sick and injured persons.

27 Since January 2003, sickness compensation and activity compensation have replaced disability pension and temporary disability pension, respectively.

sickness/activity compensation is based on the individual's pension base and not on the SGI. More specifically, it entitles the recipient to 64% of the recipient's pension base.<sup>28</sup> The guaranteed benefit depends on how many years the individual has lived in Sweden.<sup>29</sup> There is also a *housing supplement for persons with sickness or activity compensation*, which is a means-tested allowance to cover the major part of the recipient's housing expenses.

## 1.4 The economic risk of parenthood<sup>30</sup>

The administration of parental insurance is coordinated with health insurance, but it could also be regarded as an element of Sweden's family policy. It compensates both parents for loss of income during the period they are away from work after the birth or adoption of a child. The Swedish parental insurance comprises three kinds of earnings-related cash benefits: (a) the pregnancy cash benefit, (b) the parental benefit in connection with childbirth and (c) the temporary parental benefit.

Employees who are pregnant are entitled to be transferred to other duties if they have a physically demanding job that they cannot continue doing because of their condition or if they have been suspended from their job under the Work Environment Act. If the employer is unable to arrange a relocation, pregnant employees may be able to draw a pregnancy cash benefit (a) if their capacity for work is reduced by at least one-quarter owing to the pregnancy and a physically demanding job, or (b) if they have a job that they are not able to do because of risks in the work environment. The pregnancy cash benefit can be paid out for up to 50 days, starting at the earliest 60 days before the expected date of birth. If a pregnant woman has been forbidden to continue working under the terms of the Work Environment Act, she may draw a pregnancy benefit for each day for which this prohibition applies. If her duties allow her to work for part of the day, she may apply for a pregnancy benefit of three-quarters, one half or one-quarter.

Parents are also entitled to parental benefit, payable for 480 days, if they give up gainful employment in order to look after the child. The days of parental benefit are

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28 Rather than being based on lifetime income, as is the case in the old-age pension system, it is based on the best 3 years of the past 5 to 8 years. The maximum annual amount in 2005 for activity/sickness compensation is SEK 189,120 for both activity and sickness compensation.

29 In 2005 the full annual amount of the guaranteed sickness compensation is SEK 94,560; for the guaranteed activity compensation it is SEK 82,740 to 92,590, depending on the age of the recipient. These amounts are decided by the government.

30 The amounts referred to in this section are collected from the Social Insurance Office's Web site: [www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php](http://www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php)

always shared equally between both parents. One parent may give up the right to parental benefit to the other parent, apart from 60 days.<sup>31</sup> Single parents are entitled to all these days themselves. The mother can start drawing parental benefit 60 days before the expected date of birth. Parental benefit may be drawn until the child reaches the age of eight or when the child reaches the end of his or her first year at school. It is possible to draw parental benefit in full or in three-quarters, one half, one-quarter or one-eighth.

Parents staying home from work in order to look after a sick child under the age of 12 are entitled to temporary parental benefit. This entitlement also applies if the person who normally looks after the child falls ill. Both parents together are eligible for temporary parental benefit for 60 days per child per year. After these 60 days have been used up, a further 60 days can be taken out.<sup>32</sup> The benefit is payable for a full day or for three-quarters, one half, one-quarter or one-eighth of a day, depending on the degree to which the person requires time off work. It is not possible to receive temporary parental benefit for non-work days. Finally, fathers are entitled to ten days of *paternity leave* on temporary parental benefit in connection with the birth of a child. These days may be taken within 60 days after the child comes home from the hospital.

The level of benefits within the earnings-related parental insurance is based on the individual parent's SGI. The pregnancy cash benefit and parental benefits correspond to 80% of SGI divided by 365 (a calendar year). The temporary parental benefits for employees are calculated as 80% of SGI divided by 260 (based on a five-day working week); for self-employed persons they are calculated as 80% of SGI divided by 365 (based on a calendar year). The maximum amount is the same as for sickness compensation (SEK 648 per day in 2005). In order to receive earnings-related parental benefit during the first 180 days, there is a special qualification requirement according to which the parent must have been insured for a daily allowance corresponding to a minimum of SEK 60 over a period of 240 continuous days prior to the child's estimated or actual date of birth. If this requirement is not fulfilled, the parent receives the basic protection during the first 180 days (SEK 180 per day). For the 210 days thereafter there is no such requirement. During the first 390 days the residence-based parental insurance scheme provides the guaranteed minimum allowance to everyone, irrespective of employment status and income (SEK 180 per day in 2005). During the remaining 90 days thereafter (i.e. after 390 days), the allowance for everyone is SEK 60.

Children under the age of 18 are entitled to a *child's pension* upon the death of one or both of their parents. Provided that the children are studying at compulsory school, upper secondary school or an equivalent, the pension is payable up to and including June of the year in which the child reaches the age of 20.. In 2003, the rules for child pensions were changed to comply with the new pension system. The new

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31 This rule applies for parents with children born in 2002 or later.

32 These extra days cannot be taken out in the event of illness or infection of the usual carer.

child pension is based entirely on income. The amount payable is calculated on the basis of the pension base of the diseased. The *surviving children's allowance*, which was introduced the same year, is payable on top of the child's pension. This basic protection is payable to a child if one or both parents have died and the child has no, or a low, child pension. The allowance, which amounts to 40% of the price base amount per year, has in certain cases replaced child pensions from the basic pension system and in some cases replaced maintenance support.

## 1.5 The economic risk of old age<sup>33</sup>

Since the reform of the Swedish pension system the compulsory national basic pension consists of two parts: one contribution-based part and one that is financed out of the central government budget. The former is earnings-related and comprises income pension and premium pension.<sup>34</sup> The latter is residence-based and provides a top-up guarantee pension. The reformed pension system entered into force gradually and has been in full effect as of January 2003. (Socialdepartementet/Riksförsäkringsverket, 2003)

The total pension contribution is 17.21% of the insured party's income; the employers pay an old-age pension contribution of 10.21%, and the insured party pays a contribution of 7%. The highest income for which pension is credited equals 8.07 times the income base amount (SEK 43,300 in 2005). Whereas the insured party's contribution is only paid on incomes up to this amount, the employer's contribution is paid for the whole salary. This arrangement implies that the share that exceeds the ceiling of 8.07 times the income base amount is a tax paid to the public treasury and not to the pension system. The 7% paid by the insured party is deducted from his or her income when the pension base is calculated; the pension base thus equals 93% of the insured party's income. Accordingly, the pension contribution (17.21% of the insured party's income) corresponds to 18.5% of the pension base.<sup>35</sup> Because it is largely a pay-as-you-go (PAYG) system, 16 percentage points of the pension contribution are used for the PAYG system; the remaining 2.5 percentage points are deposited in an individual premium pension account that accrues interest.<sup>36</sup>

The current limit for liability to submit a tax return on income is 42.3% of the price base amount. Thus, income up to this limit is not pensionable income and does not

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33 The amounts referred to in this section are collected from the Social Insurance Office's Web site: [www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php](http://www.forsakringskassan.se/pdf-broschyr/aktuellabelopp2005.pdf?page=/privatpers/index.php)

34 The contribution-based component applies to everyone born in 1953 or later.

35 Arrived at as follows:  $17.21/(1-0.07)=18.5$ .

36 For those born between 1938 and 1953 it is less.

entitle an employee to pension rights in the earnings-related old-age pension system. However, when the individual has crossed this threshold, he or she is entitled to pension rights from the first krona earned. Pensionable income is made up primarily of a person's wages, but also includes other taxable income such as sick pay, parental cash benefit and unemployment benefit. As mentioned, the highest income for which pension is credited equals 8.07 times the income base amount. Nevertheless, because the national pension contribution of 7% is deducted from a person's income when the pension base is calculated, the pension base equals 93% of the income. Consequently, the maximum pension base is 7.5 times the income base amount (93% of 8.07). The link to the income base amount ensures that pension entitlements are indexed annually, reflecting the average income growth in society. In the premium reserve scheme, there is no need for indexing because the growth is based on yield from investments.

The determining factors for the earnings-related pension are the age of retirement, life expectancy for a cohort and the development of the economy. The pension is based on all lifetime earnings reported to the scheme; there is no upper age limit. Thus, as long as a person has an income, that person will continue to earn pension entitlements, regardless of whether or not he or she also draws pension as a supplement. The income and the premium pension can be drawn from the age of 61 at the earliest, and it is possible to take out a full pension or a pension of three-quarters, one half or one-quarter. The balance on the premium pension account changes according to the return on the capital funds chosen by the pension-saver. As in the case of the income pension and the supplementary pension, the premium pension is paid for life. Partial pension claims also can be made.

Anyone who has not managed to earn an adequate pension is assured the top-up guarantee pension. The guarantee pension can be paid as from the age of 65 at the earliest to those born in 1938 or later. A full guarantee pension amounts to 2.13 price base amounts for single people and 1.90 price base amounts for married persons. The size of the guarantee pension is partially adjusted to take into account other pensions from the national pension system. It is also adjusted against other pension income (e.g. a widow's pension). It is not adjusted against occupational retirement pensions, private pensions or other earned income.

Relatives of someone who is deceased may be entitled to a *survivor's pension* in the form of a *child's pension*,<sup>37</sup> an *adjustment pension* or a *widow's pension*.<sup>38</sup> The *adjustment pension* is paid for 12 months to men or women under the age of 65 whose spouse has died. The size of the allowance is calculated on the basis of the pension base of the deceased person. The *extended conversion pension* is payable for another 12 months to survivors living with a child under the age of 18, and for every month up

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37 See Section 1.4 on the economic risk of parenthood.

38 The widow's pension was, in principle, abolished in 1990 but can, under certain circumstances, still be paid out.

to and including the month in which the youngest child reaches the age of 12. A guarantee pension is payable on top of the adjustment pension. This basic protection guarantees a certain level of survivor's pension benefits, depending on how many years the diseased person has lived in Sweden. The maximum level of guarantee pension requires 40 years of residence and corresponds to 2.13 times the price base amount (SEK 6,994 monthly in 2005).

## 1.6 The economic risk of unemployment<sup>39</sup>

Like the social security schemes managed by the Social Insurance Office, Swedish unemployment insurance consists of one component providing basic protection and one earnings-related component. Unlike the other schemes, however, the latter is voluntary and requires membership in an unemployment insurance fund. An unemployed person must have been a member of such a fund for a minimum of 12 months prior, and in direct connection, to the first day of unemployment. Individuals seeking membership in an unemployment insurance fund must have been employed for a minimum of 17 hours per week for at least four weeks of an uninterrupted period of five weeks, and they must still be employed to at least the same extent. In 2003 the unemployment insurance funds had 3.8 million members. (Näringsdepartementet, 2003) The basic unemployment benefit is universal and provided to anyone over 20 years of age who meets the basic conditions and a work condition or a student condition.

The *basic conditions* require that the applicant is (a) entirely or partly unemployed, (b) fit for work and available for work for at least three hours per day and at least 17 hours per week, (c) prepared to accept an offer of suitable work, (d) registered as a jobseeker at the PES, (e) willing to cooperate in drawing up an individual back-to-work plan in consultation with the PES and (f) actively seeking work. The *work condition* requires (a) employment for at least 70 hours per month for a minimum of 6 months during the 12 months immediately prior to becoming unemployed, or (b) employment for at least 45 hours per month during a continuous period of six calendar months, with total working hours amounting to at least 450 hours. . Anyone who has completed full-time studies (which entitles one to student financing) of at least one year and has been registered with the PES or worked for at least 90 calendar days during a continuous period of 10 months subsequent to completion of his or her studies fulfils the student condition.

The membership-based unemployment benefit is paid as a daily allowance for a maximum of five days per week (Monday to Friday). The number of days per week is

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39 The amounts referred to in this section are collected from the Swedish Unemployment Insurance Board's (IAF) Web site: [www.iaf.se/iaftemplates/Page.aspx?id=17](http://www.iaf.se/iaftemplates/Page.aspx?id=17)

reduced if the beneficiary works or is not able to take up a job for some other reason (e.g. sickness). The scheme entitles the beneficiary to 80% of previous income, irrespective of family structure. The maximum amount is currently SEK 680 per day (SEK 730 per day during the first 100 days of the benefit period). Benefits from the earnings-related unemployment insurance can be received for a maximum of 300 days, after which the work condition must be fulfilled anew. At the beginning of each period of unemployment there are five qualifying days during which no benefits are paid. Anyone granted the basic unemployment insurance benefit receives a basic sum (currently a maximum of SEK 320 per day, five days per week), irrespective of previous income. The unemployment benefits are taxable.

## **2 Specific aspects of social protection for the self-employed**

When general national health insurance was introduced in 1955, membership for the self-employed became compulsory. They thereby were covered by a basic insurance, which could be complemented by a voluntary insurance. The combined benefit from the basic and the voluntary insurance could not exceed the sickness benefit received by an employee carrying out similar tasks. Membership in the voluntary insurance was very limited, and the supplementary insurance that applied for employees was extended to the self-employed in 1963. The employer could, however, announce withdrawal from this insurance until 1982, when it was made compulsory.

The Swedish unemployment insurance system was originally designed for employees and has gradually been extended to cover the self-employed. The first law on voluntary unemployment insurance was introduced in 1935 and covered only employees. A government proposal in 1956 recommended that the insurance should be open to anyone, in particular those self-employed persons working under conditions similar to those of employees. However, due to lack of interest from the side of the employers, no changes were made until 1973. Since then employees working on an assignment basis have been entitled to the same benefits as employees. Subsequently, the framework has been extended gradually: in 1983 individuals running a registered company became entitled to benefits, and finally it was decided that individuals combining employment and self-employment could become members of the insurance scheme.

The development of the national health insurance and the unemployment insurance exemplifies the universalism that is a central feature of the Swedish social protection system. The implication of this universalism is that all categories of workers on the labour market are covered by the same protection. For each group, however, there are slightly different regulations related to *when* and *how much* a person is



entitled to. This is true for the framework of the social insurance system as well as for the unemployment insurance system.<sup>40</sup>

## 2.1 Specific regulations within the social insurance framework

The benefit levels within the social security system are generally based on either price or income developments. Adjustments to secure the real value of the benefits are principally related to the price base amount or, as within the reformed old-age pension system, an income indexation. With respect to sickness benefits and other daily payments, however, this kind of general adjustment mechanism is absent. Instead, there is a system of individual adjustment according to wage development based on the principle of compensating for lost income.

Within the legal framework of the social security system, SGI (the basis for cash benefits related to the economic risks of sickness, work injury and parenthood) is the yearly cash income that the individual beneficiary can be assumed to earn in Sweden, either as an employee (SGI-A) or as a self-employed person (SGI-B). In general, the rules concerning SGI are the same regardless of whether the income is earned from employment or self-employment. There are, however, certain differences, which primarily are related to the calculation of SGI. Perhaps the most central difference is that for the self-employed it is net income from business activity (the result after deduction of costs but before tax) which is the basis for calculations of the daily allowances. Thus, if they invest all their earned income into business activity instead of 'earning a salary', they fall outside the system of earnings-related cash benefits.<sup>41</sup> (This conclusion holds for all earnings-related cash benefits discussed in this paper, not only those based on SGI.) This section shall highlight other aspects for which the method applied to calculate SGI for the self-employed diverges from the method used for employees. It is limited to a discussion of technical differences; practical aspects are addressed in Section 3.

The Social Insurance Office takes decisions regarding SGI when a person requests employment-conditional social security benefits. The general rule when calculating SGI (SGI-A as well as SGI-B) is that the insurance office can only consider income from employment that is expected to last for at least six months or be carried out on an annual basis. As a result, self-employed persons could be denied benefits because their assignments are not long enough.<sup>42</sup> The minimum (24% of the price

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40 With respect to the old-age pension system, the same regulations apply to employees and self-employed persons.

41 In order for the insured to be entitled to sick pay, SGI must reach 24% of the price base amount.

42 For further information on the calculation of SGI for the self-employed, see Section 3.2.

base amount) and the ceiling (7.5 times the price base amount) levels of SGI apply to employees as well as self-employed persons.

The insurance office calculates SGI for employees on the basis of yearly income from employment. For the self-employed, SGI is based on net income, that is, on the result after deduction of costs but before tax. Thus, whereas it is straightforward to determine SGI for employees, there are various complications in determining SGI for the self-employed. One central aspect, for example, is that net revenues tend to be low in the start-up phase of a business as well as during the period before bankruptcy. During the former, the Social Insurance Office can estimate expected net revenue and thereby determine SGI at a higher amount than actual net revenues. There are no fixed regulations on the duration of the start-up period or the level of SGI for certain businesses; this is decided on a case-by-case basis. This method also can be applied to mitigate risks related to varying incomes, such as during periods of high investments. There is also a restriction imposing an additional threshold on SGI for the self-employed, which derives the intent to ensure exclusion of income that does not qualify for SGI but that affects net revenue (e.g. capital income). This restriction states that the SGI for a self-employed person (SGI-B) can never exceed the amount that an employee would earn for similar work (the comparative income), irrespective of the actual income of the self-employed person. There is one exception to this rule, which states that the comparative income can be raised by a maximum of 10% due to regular overtime. The courts have not, however, allowed SGI to be based on working hours that are longer than the maximum overtime set by law.<sup>43</sup> In the normal situation, SGI for the self-employed is calculated on the basis of the taxed income during the previous three years, although the development of the company also is to be taken into consideration. The regulation framework for SGI-B has been subject to several investigations during the 1990s. Although there has been no lack of suggestions for revisions, the system essentially has remained unchanged.

Beyond the mere calculation of SGI, the framework of the social insurance system (risks related to sickness, work injury and parenthood) entails a few additional aspects for which specific regulations apply for the self-employed. Firstly, since the introduction of sick pay in January 1992, there is a distinct difference between employees and self-employed persons within the insurance framework with respect to illness. During the first 14 days of illness, when employees are entitled to *sick pay* from their employer, the self-employed receive *sickness benefit* from the insurance office. Whereas the former entitles the recipient to 80% of SGI divided by 260 days (based on a five-day week),<sup>44</sup> the latter is calendar-based, that is, 80% of SGI divided by 365 days. The motivation for this rule is that self-employed persons have greater influence over their working situation. Employees in the grey zone between employment and self-

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43 SGI for employees does not account for overtime.

44 Benefits for employees also can be calculated by the hour or day, which is not possible for calendar-based benefits.

employment,<sup>45</sup> and thus not entitled to sick pay, are entitled during the first two weeks of illness to sickness benefit, based on a five-day week, from the insurance office.<sup>46</sup> After 14 days, sickness benefit is calendar-based (365 days) for everyone.<sup>47</sup>

A second important difference in the regulations related to sickness and work injury benefits<sup>48</sup> is a certain element of flexibility that applies only for the self-employed. Whereas a waiting period of one day is required for employees, self-employed persons can choose between two insurance categories which stipulate a waiting period of either 3 or 30 days (during which sickness benefits will not be paid). The longer the waiting period, the lower the contributions will be.<sup>49</sup> If no choice is made, the self-employed are covered by the one-day rule. In relation to the number of qualifying days, it is also worth mentioning the high-risk protection for individuals who are often sick. This rule states that there can be a maximum number of 10 qualifying days during a period of 12 consecutive months, which means that a person who is sick on more than ten occasions is entitled to benefits from the first day. Self-employed people who have chosen a waiting period of 3 or 30 days are not covered by this high-risk protection.

The regulation stipulating calendar-based benefits for the self-employed could also imply that self-employed parents receiving temporary parental benefit are forced to use their 60 days of benefit entitlement less efficiently than employees. The reason is that the self-employed must take seven days in order to receive the same compensation as an employee taking only five days (this applies when the period of sickness is a full week or longer).<sup>50</sup>

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45 That is, employees who do not work on an open employment contract or a fixed-term contract with a duration exceeding one month and who have been working for less than two weeks.

46 Note that the distinction between employees and self-employed persons is relevant to determine whether a person is entitled to sick pay or sickness benefit but is not relevant to determine SGI.

47 For individuals who become unemployed and no longer have income from work, the main rule is that their previous SGI ceases to apply. However, if they register with the employment office as a jobseeker within three months, they maintain their SGI (SGI-protected period).

48 Sickness benefit applies for work injury as well as sickness.

49 The number of qualifying days does not affect the entitlement to parental insurance or temporary parental insurance.

50 I.e.  $80\% \text{ of } (\text{SGI}/260) \times 5 \approx 80\% \text{ of } (\text{SGI}/365) \times 7$ .

## 2.2 Specific regulations within the unemployment insurance framework

Obviously, self-employed persons face the same risk of experiencing periods of sickness or parenthood as employees do. However, there are at least three reasons why their risk of unemployment is somewhat different:

1. Irregular income is a normal expression of the risk-taking that is part of running a business.
2. It is the self-employed person who takes the formal decision to shut down his or her business.
3. Unemployment insurance could bias the competitiveness between businesses.

Swedish unemployment insurance regulation addresses this problem by protecting the worker but not the company. This section attempts to describe how this approach is reflected in the regulation framework. Firstly, it should be pointed out that there are no special unemployment benefits for formerly self-employed persons; they are treated within the same framework as employees. (More about the borderline between the two groups is included in Section 3.) Self-employed persons can become members of the unemployment insurance fund responsible for their occupational branch and acquire entitlement to insurance benefits in the same way as employees. The central aspects of unemployment benefits for the self-employed concern (a) when they should be considered unemployed and what activities they should be allowed to undertake as an unemployed person, and (b) how much they should be entitled to.

To begin with the first question, a formerly self-employed person is defined as unemployed if he or she has ceased business permanently. This definition implies that the necessary conditions to run the business should no longer remain, that is, that inventories and stocks have been sold, permissions have been cancelled, the business has been deregistered and so forth. Thus, it could be said, only *formerly* self-employed persons (not self-employed persons) can be unemployed. This regulation should ensure that unemployment insurance is not used to supplement income in less profitable businesses or to ease the start-up of a business, which would bias competition. In praxis, four months have been considered a sufficient period between two business activities, and the more different the two activities, the shorter the period. There is, however, one exception, which has been introduced to promote entrepreneurship. As from 1997 it has been possible for entrepreneurs to receive benefits during a temporary break in the business activity. A self-employed person may cease business temporarily and may then be counted as unemployed only if the closure of the business is not seasonal and if there is no activity in the business. This special rule may only be used once per business.

Another, related aspect is that it is the self-employed person who takes the formal decision to shut down the business. Thus, entrepreneurs closing down their business while it is still profitable risk having their entitlement to unemployment benefits withdrawn for 45 days. It is not, however, required that the business face bankruptcy; it is sufficient that it does not generate reasonable subsistence income. In praxis, this amount has been defined as a net income corresponding to three times the price base amount.

With respect to the second question, there are special rules to calculate the daily allowance for formerly self-employed persons. For employees the daily allowances are based on the income during the six-month period constituting the basis for the work requirement (and thus the entitlement to the benefit). Employees with varying income could, if it is to their advantage, have their daily allowance based on the full qualifying period. For the self-employed, the daily allowance is based on the average income for the last three years (excluding the final year) before the business was closed down. Self-employed persons who have run a business for a period shorter than three years could, if it is to their advantage, include the final year. If the business closed down during the first 12 months, the income may be based on the income that the self-employed person previously earned as an employee.

### **3 Certain aspects of social protection in practice**

The two previous sections have described central aspects of the employment-conditional social protection framework in Sweden and highlighted aspects for which the regulations for the self-employed diverge from those applying for employees. The objective of this section is to discuss certain aspects of the social protection system in practice. Firstly, the borderline between self-employed persons and employees is addressed. Subsequently, the specific regulations for the self-employed are revisited, this time from the perspective of their practical implications.

#### **3.1 The borderline between self-employed persons and employees**

In recent years there have been rapid and profound changes taking place in the world of work, both in regard to work organisation and the content of work. 'Post-Fordist' undertakings are increasingly having recourse to new forms of work organisation such as outsourcing and contracting-out. This tendency has contributed to the emergence of economically dependent work in a grey zone between dependent work and self-employment (Perulli 2002). It probably is uncontroversial to state that there is a degree of uncertainty surrounding the distinction between economically dependent work and self-employment in Sweden. According to the National Institute for Working Life (ALI),

for example, it is likely that there are situations in which employees are forced into self-employment. It has found indications that employees working on an assignment basis are required to pay their own social security contributions, even though the tasks are primarily the same as for employees and the party providing the service is dependent on one single employer (Näringsdepartementet 2002). This view is supported by the personnel working at the start-up hotline of the Swedish Business Development Agency (or 'NUTEK'); they have noticed a tendency towards employers encouraging their employees to apply for F-tax cards (company tax cards).

In Sweden the social protection system is fundamentally founded on the principle of national insurance. Those protected are not defined according to social status, and no distinction is made between employees and self-employed persons. Thus, it is relevant to question whether the existence of grey zones has any implications for the level of social protection. The answer must take into consideration both the responsibility to pay the social security contributions and the calculation of fair benefit levels. Firstly, the additional costs and risks related to self-employment are not always mirrored in the payments for the assignment. This aspect is crucial, as net revenues determine the level of daily allowances within all the different parts of the social protection system. Secondly, the legal rules and principles that apply to self-employment and dependent work are not always identical. As we have seen, there are, for example, situations in which unemployment and sickness benefits are calculated differently for these two groups.

To distinguish between self-employment and dependent work is a difficult task. There are situations in which the self-employed receive hourly wages, and employees sometimes receive performance-based wages. In addition, an increasing number of employees have flexible work arrangements similar to those of self-employed persons. A systemic problem, however, is that the different systems are not coordinated, with the consequence that a person paying taxes as an employee may be regarded as self-employed within the unemployment insurance framework. Tax legislation and the social security system distinguish between income from employment and income from business activity. Within the unemployment insurance system, a distinction between employees and self-employed persons is made, and the concept of a self-employed person is specific for the unemployment insurance system. Everyone must be defined either as an employee or as a self-employed person, and the distinction is based on the level of dependence. There is no specific category for freelancers in any judicial system. This circumstance does not, however, mean that freelancers, understood as persons working on shorter assignments without receiving a remuneration that compensates for the period in between contracts, do not exist.

### Self-employed persons within the social insurance system

As discussed in Section 2.1, the distinction between employment and self-employment within the legal framework of the social insurance system is based on the kind of income received by the insured person. The system defines two types of income: SGI-

A, which is income from employment, and SGI-B, which is income from self-employment. The distinction between SGI-A and SGI-B relates to tax classification. There are two forms of preliminary tax: F-tax (company tax) and A-tax (employment tax). In other words, it is the form of tax which is decisive in determining how taxes at source and social security contributions are to be paid on remuneration for work.

If the Swedish Tax Agency is to approve a business activity and provide applicants with an F-tax card, the business must be characterised by continuity, independence and a purpose of profitability. Independence should be understood as a business in which the self-employed person is not excessively reliant on one single employer. Other features of independence are economic risk-taking, independent management and independent marketing. The legal framework does not provide any further guidance, and it has always been difficult to distinguish between employees and self-employed persons. Although this problem was significantly reduced through the introduction of the concept of F-tax, there still remain grey areas for certain groups, such as persons working on assignment, artists and persons paid through royalties. According to NUTEK, it is not uncommon for potential entrepreneurs to be denied an F-tax card; during the period from January to October 2002, the number of denied applications was 1,946, of which 955 did not fulfil the criteria for business activity, in particular the requirement of independence (NUTEK 2003). It is an important but difficult task to strike the right balance between ensuring uncomplicated access to an F-tax card and avoiding having employees forced into self-employment. If the tax authorities consider a denial of an application, it is their obligation to prove that no business activity exists.

### Self-employed persons within the unemployment insurance system

Within the unemployment insurance system, a distinction between dependent and independent workers is made, and everyone must be classified into either of these two categories. The law requires a holistic approach: it is not sufficient to consider merely formal circumstances such as possession of a company tax card. There are no specific rules for persons working on an assignment basis within the legal framework of unemployment insurance, or any definition of the concept. In praxis, however, a contractor is described as a person with one or more assignments with an employer. The central criterion defining whether a contractor should be considered an employee or a self-employed person is the degree of independence. The characteristics of a dependent contractor — considered an employee within the unemployment insurance framework — is that he or she:

- only provides his or her labour services,
- only provides one type of work,
- is dependent on one or possibly two employers,
- does not have only a temporary relationship to the employer,

- receives payment according to the amount of time spent on the assignment (e.g. by the hour),
- undertakes the assignment on a location decided by the employer,
- generally lacks a business venue as well as considerable inventories,
- does not have a registered company.

Although the law requires a holistic approach to distinguishing between dependent and independent workers, there are indications that individuals who are in possession of an F-tax card tend to be considered independent without exception. On the other hand, it is possible for individuals without a company tax card to be regarded as independent. Examples of such categories of workers are scriptwriters, translators and journalists working on assignment for several different employers. They receive a fixed payment in advance, and the employers pay tax as well as social security contributions. Another rule of thumb commonly applied by PES offices is to define individuals working for no more than two employers as dependent (Näringsdepartementet 2003).

### 3.2 Benefit entitlement revisited

There are several reasons to revisit benefit entitlements for the self-employed. Perhaps the most central issue relates to the fact that the level of benefits is based on net revenues, or even an estimation of net revenues. Thus, in order to assess the actual social protection offered to the self-employed, it would be necessary to study not only net revenues (i.e. to what extent do self-employed 'earn a salary') but also the estimation procedures applied by the Social Insurance Offices (for benefits related to the risks of sickness, work injury and parenthood) and the unemployment insurance funds. It is evident that this is a very complex issue, and this paper can only scratch at the surface.

Statistics from the National Social Insurance Board (RFV 2003) reveal that over 4 million Swedes were included in the sickness insurance register in 2002. The majority of them (3.9 million) received income from dependent employment (SGI-A); 213,000 had income from self-employment (SGI-B). In addition, around 46,000 of the insured earned mixed incomes (SGI-A and SGI-B). It is a difficult task to assess the actual level of benefit entitlement for the self-employed. The statistics on actual receipts as well as net revenues do not provide sufficient information. One problem relates to the lack of information on the personal situation of the entrepreneur. Consequently, it is difficult to know whether a self-employed person is dependent on the income from the business activity or whether it is something that he or she runs as a spare job/activity. Therefore, the statistics certainly should be interpreted with care. This said, however, Tables 2 to 4 do suggest that the self-employed receive lower sickness benefits than employed persons. Moreover, a survey by the Social Insurance Offices in Stockholm and Uppsala confirms that, in most situations, SGI is significantly reduced after the start-up phase,



that is, when actual net income rather than estimated net income is applied (Näringsdepartementet 2003).

Table 2 reveals that income from self-employment is significantly below income from dependent employment. More specifically, the figures in the table suggest that only 15% of the women and 21% of the men with income from self-employment (SGI-B) earn more than SEK 200,000 per year, compared with 36% of the women and 61% of the men in dependent employment. Table 3, which is based on RFV statistics, shows that the average daily sickness benefit among the self-employed (SEK 271) is significantly below that of employees (SEK 429). Again, this is true for men as well as women. Table 4, which is based on SCB statistics, shows that the average income for the entire group of self-employed persons is significantly below that of employees. In 2000 the average employee had an income that was 72% higher than that of a self-employed person.

**Table 2 Income intervals 2002 (Percentage of individuals per income interval)**

Income interval (SEK per year)	SGI-A	SGI-A	SGI-B	SGI-B
	Women	Men	Women	Men
8,000–100,000	10	6	52	43
100,000–200,000	55	34	33	37
200,000–284,000	29	41	10	15
284,000 and more	7	20	5	6

Source: RFV datalager store ([www.rfv.se](http://www.rfv.se))

**Table 3 Calendar-based average sickness benefit 2002 (SEK per day)**

	Women	Men	Men and Women
Employed	394	462	429
Self-employed	246	282	271
Total			420
Maximum benefit			606

Source: RFV datalager store ([www.rfv.se](http://www.rfv.se))

**Table 4 Income and tax payments 2000 (SEK per year)**

	All income groups			Earnings over SEK 180,000		
	One-person firms	Employees	Difference	One-person firms	Employees	Difference
Work income	109,224	188,183	-78,959	270,592	287,185	-16,593
Final tax	61,280	76,806	-15,526	116,099	114,382	1,717

Source: Företagarna 2003 (statistics from Statistics Sweden)

With respect to the method applied by the insurance offices to estimate net revenues, a recent RFV study (2003; see Table 5) reveals that in over one-third (37%) of the cases, the estimation of SGI-B was based on the person's most recent taxed income. In one out of four cases SGI-B was estimated on the basis of the insured person's own information on expected income, which had not yet been subject to taxation. The regulation concerning SGI-B during a start-up phase was applied in 12% of the cases, and in over nine out of every ten of these instances a comparative income from dependent employment was applied. Hence, most recent income (previous and/or current year) was applied in three out of four cases. The RFV study also reveals that the Social Insurance Offices based their estimations on SGI-B on insufficient background information in around 40% of the cases. In particular, in one out of four situations requiring information to assess the relationship between expected income and net income during previous years, such information was insufficient. In one out of five situations there was insufficient information to explain why SGI-B exceeded comparative income from dependent employment. Unsatisfactory information on whether the activity is in a start-up phase is also among the most common shortcomings.<sup>51</sup>

**Table 5 Method for calculating SGI-B**

1. Most recent taxed income	37%
2. The insured person's information on expected (non-taxed) income	25%
3. A combination of 1 and 2	12%
4. Comparative income (higher than net income) during the start-up phase	11%
5. Other	7%
6. Average earnings-related taxed income during previous years	4%
7. Trend in earnings-related taxed income during previous years	2%
8. Comparative income for reasons other than start-up phase	1%
9. Higher amount than comparative income during the start-up phase	1%
10. Shared net income between spouses with common business activity	1%
11. Higher amount than comparative income because of special circumstances	0%

*Source: RFV 2003*

Given the apparent shortcomings of the information, it is perhaps not surprising that different insurance offices sometimes arrive at different conclusions on the level of SGI-B for the exact same kind of case. However, the prevalence of this outcome does not mean that it is acceptable. One basic condition should be the provision of an easily accessible overview of how the social protection system functions for the self-employed. This lack of information is not the only reason why it is somewhat difficult to get a good overview of the system. On the basis of experience from their start-up hotline, for example, NUTEK concludes that there is a great need for more and clearer

<sup>51</sup> Determination of the duration of the phase poses a greater problem than determination of the level of SGI during this phase (Näringsdepartementet 2003).

information about social security and unemployment before the start-up is even launched. Many self-employed people are uncertain about their protection should they become sick or unemployed. Some are not even aware that they are allowed to be a member of an unemployment insurance fund as a self-employed person (NUTEK 2003). Moreover, according to the Social Insurance Offices in Stockholm and Uppsala, it is not uncommon for the self-employed to have poor knowledge about the impact of different tax deductions on their net income and thereby on their SGI.

Several aspects of the regulations within the unemployment insurance framework have direct implications for benefit entitlement for the self-employed.<sup>52</sup> The rule stating that self-employed persons may cease their business activity temporarily raises questions about how much preparation the unemployed person is allowed to carry out without violating the job search requirement and being denied benefits. Another matter relates to the rule stating that entitlement to unemployment benefits can be withdrawn for 45 days if a profitable business activity is closed down. Because daily allowances are based on net revenues, this rule has a negative impact on the level of daily allowances for the formerly self-employed. A third issue concerns the distinction between dependent and independent workers. As explained above, the former is not subject to the rule requiring closure of the business in order to be entitled to benefits (by definition, there is no business to shut down). This rule could pose an impediment for persons working on assignment basis to take on assignments from more than two employers. According to the rule of thumb, they would then be classified as independent workers and thus subject to the rule of closing down the business. This classification creates problems for employees working on repeated short-term assignments for more than two employers (e.g. artists). There would be no reason, however, to deny dependent workers unemployment benefits as long as the applicant has no intention of taking up the business activity again. A survey on the main problems related to business start-ups, conducted among SACO trade union members,<sup>53</sup> reveals that one-fourth mention the difficulty for the self-employed to obtain entitlement to unemployment benefits. There were, however, significant differences between self-employed men and women: only 4% of the men consider the difficulty of receiving unemployment benefits an impediment, compared to 27% of the women.

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52 Questions related to benefit levels for unemployed persons who formerly were self-employed are difficult to address because the general statistics do not provide a link between former occupation and daily allowances.

53 SACO: Swedish Confederation of Professional Associations.

## 4 Universalism versus flexibility and freedom of choice

It is evident from the previous sections that universalism is a central feature of the Swedish public social protection system. The extension of social security benefits to cover new groups on the labour market has not been without complications, however. Some of the problems faced by the self-employed, such as varying income and short-term contracts, are shared with other groups without full-time dependent unemployment. Other problems, however, are unique to the self-employed and have their roots in the special features of self-employment. To some extent, the pros and cons of universalism reflect a trade-off between ensuring general coverage and insuring against unique risks. This trade-off raises at least two questions that are relevant within the framework of this study. Firstly, is the system flexible enough to ensure the same level of protection to self-employed persons as to employees? Secondly, to what extent can the self-employed choose a different kind or level of protection, one that is designed for their unique risks and needs?

Because social protection is compulsory (with the exception of unemployment insurance) and primarily designed for full-time employees, there is a risk that it could fail to provide suitable protection for the self-employed. Nevertheless, the short answer to the first question is probably affirmative. In general, the level of protection offered to the self-employed is as comprehensive as it is for employees. The disparities appear to be mainly related to income variation; such differences are inevitable in a system based on the principle of lost income. Yet it is frequently argued that the self-employed lack adequate social protection. One potential explanation, which was mentioned in the previous section, could relate to the lack of easily accessible information about the system, which would imply a perceived inadequate protection rather than an actual lack of protection. According to Stig Orustfjord at RFV, it is a myth that the changes on today's labour market lead to an increase in the number of people who lack adequate social protection. The self-employed, he concludes, need to insure themselves against two types of risk: loss of income and loss of other values in the firm. The objective of the Swedish social security system is to ensure that the individual can maintain his or her own private consumption, not to cover for costs related to the firm (IT-rättsliga observatoriet 2001).

This point takes us to the second question of the additional economic risks faced by self-employed persons relative to employees. This complex issue pertains to what kind of protection one expects from the system. Those arguing for a more comprehensive system for the self-employed often point out that the self-employed have fixed costs that need to be covered during sickness as well. The method applied to calculate SGI, they argue, should take this into account. This paper does not take sides in this debate; it is restricted to concluding that everyone is compensated, up to a certain threshold, by the same percentage of their income. In terms of flexibility, it is true that there is a certain degree of it built into the system, such as the number of days in the waiting period for sickness insurance and the possibility to estimate net revenues

during the start-up phase. In general, however, there is little room for the individual to choose his or her level of protection.

One specific question concerns the level of benefits: the importance of earning a minimum income has been stressed repeatedly above, but it is not only the low end of the benefits which imposes a potential restriction. An opposite problem is that the ceiling level could be too low to cover high fixed costs when the self-employed are incapable of work. With higher levels they would perhaps have had the opportunity to pay contributions for a higher income and thereby enhance the level of protection. In addition, the rule stating that the self-employed cannot calculate their SGI on the basis of a wage that is higher than what is considered reasonable for an employee carrying out similar tasks could result in the self-employed having their SGI revised downwards. In other words, while investment in business activity entails lower current income and thus a lower SGI,<sup>54</sup> the increase in future income as a result of this investment is not fully reflected in a higher SGI.

When discussing the flexibility and freedom of choice of social protection, it is obviously a restriction to study the public system in isolation from non-public solutions. On the other hand, the Swedish public social protection system is compulsory for everyone, which implies that non-public alternatives are always complementary or supplementary insurances. This is not to say that they are irrelevant. On the contrary, the development during the 1990s was characterised by an increase of complementary insurances. There are some indications that the increased significance of complementary insurances implies that social protection for the self-employed has deteriorated relative to employees. This development would perhaps not be surprising given that a great majority of the employees in Sweden are covered by additional insurances through collective agreements. According to the Swedish Trade Union Confederation (LO), there are collective agreements in about 80% of all work places, with the remaining 20% being largely explained by self-employment. For the self-employed, this type of social security needs to be covered by private insurances. According to insurance brokers, there is a surprisingly large number of self-employed persons who have not considered that they are outside this part of the social security net. Irene Wennemo (LO) takes a somewhat different perspective and talks about 'the dilemma of freedom' (IT-rättsliga observatoriet 2001). This discussion is outside the scope of this paper and requires further research.

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54 Note that the Social Insurance Office can make an estimation of expected net revenue and thereby determine SGI at a higher amount than that for actual net revenues. This method could be applied in order to mitigate risks related to varying incomes due to, for example, periods of high investments (see Section 2.1).

## 5 Concluding remarks

One-person firms are common on today's labour market and thus play an important role for employment. Moreover, they are increasingly unstable, with many of them shutting down only a few years after they started. Against this background, it is ever more important that one-person businesses are covered by the public social security system.

The first part of this paper presented the social security system for employees. In addition to serving as a point of reference for the protection applying to the self-employed, this section provided a basic overview of the system itself. The second section focused on special regulations for the self-employed. Although there are slight differences in coverage for the two groups, a general conclusion to be drawn from the first two sections is that universalism is a central feature of the Swedish social protection system. The main differences between employees and self-employed persons relate to the responsibility to pay the social security contributions and the method applied to calculate benefit levels. To a large extent, the differences mirror the double role played by sole proprietors of private companies, who are both workers and entrepreneurs simultaneously. The regulations are an attempt to separate the two roles, without denying either of them. Although considering entrepreneurs as workers in need of protection, the system also aims to consider their role on a competitive market, and to take into account that self-employed persons have more control over their working situation than employees do. This highlights the difficulties in designing a fair system.

The third section discussed certain aspects of the social protection system in practice. It described how the social insurance system makes a distinction between employment and self-employment on the basis of tax classification, whereas unemployment insurance distinguishes between dependent and independent work. Because the two systems are not fully coordinated, a person paying taxes as an employee may be regarded as self-employed within the unemployment insurance framework. Section 3 also provided statistical information indicating that the self-employed receive lower sickness benefits than employees do. On the other hand, varying benefit levels are expected in a system based on the loss-of-income principle, which, as noted in Section 4, has been extended to cover the self-employed according to largely the same principles as those for employees. There is, however, little room for the individual to choose his or her level of protection. This may imply a greater problem for them relative to employees, assuming that self-employed persons are exposed to additional risks other than the mere loss of regular income. One aspect of this problem is the greater income variations normally experienced by the self-employed. Although the system has a certain degree of flexibility, for example during the start-up phase of a business, it can not fully account for all of the specific features of self-employment.

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Social Insurance Office's Web site:

[www.fk.se/privatpers](http://www.fk.se/privatpers)

[www.forsakringskassan.se/sprak/eng/utveckling](http://www.forsakringskassan.se/sprak/eng/utveckling)

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[www.iaf.se/iaftemplates/Page.aspx?id=17](http://www.iaf.se/iaftemplates/Page.aspx?id=17)

## **Abbreviations**

ALI	National Institute for Working Life
AMS	Swedish Labour Market Board
A-tax	Employment tax
ATP	Supplementary pension
F-tax	Company tax
IAF	Swedish Unemployment Insurance Board
LO	Swedish Trade Union Confederation
NUTEK	Swedish Business Development Agency
PAYG	Pay-as-you-go
PES	Public Employment Services
PPM	Premium Pension Authority
RFV	National Social Insurance Board
SACO	Swedish Confederation of Professional Associations
SCB	Statistics Sweden
SIG-A	Sickness-qualifying income from employment
SIG-B	Sickness-qualifying income from self-employment



## **Annex 1: Overview of benefits for different categories**

### **Financial security for families and children**

#### *Residence-based*

- Child allowance
- Housing allowance for families with children
- Care allowance for handicapped children
- Maintenance support
- Adoption allowance
- Guaranteed parental insurance

#### *Employment-conditional*

- Child's pension
- Parental insurance
  - Pregnancy allowance
  - Temporary parental allowance
  - Parental allowance

### **Financial security in sickness and disability**

#### *Residence-based*

- Certain health care allowance, including dental care
- Disability allowance
- Car allowance for disabled persons
- Attendance allowance
- Guaranteed activity compensation
- Guaranteed sickness compensation

#### *Employment-conditional*

- Sickness benefit
- Earnings-related activity compensation
- Earnings-related sickness compensation
- Rehabilitation benefit
- Housing supplement for disabled pensioners/temporary disabled pensioners
- Closely related person's allowance
- Work injury compensation
  - Life annuities
  - Sickness benefit
- Disease carrier's allowance

### **Financial security in old age, etc.**

#### *Residence-based*

- Special pension supplement

- Maintenance support for the elderly
- Housing supplement for pensioners
- Old-age pension
  - Guarantee pension
- Survivor's pension
  - Guaranteed widow's pension
  - Guaranteed adjustment pension

*Employment-conditional*

- Old-age pension
  - Income pension
  - Premium pension
- Special pension supplement
- Survivor's pension
  - Earnings-related widow's pension
  - Earnings-related pension
- Wife's supplement

## Annex 2: Social insurance expenditure 2003–2004

	SEK million	
	2003	2004 <i>forecast</i>
<b>Financial security for families and children</b>		
Parental insurance	21,970	23,585
Child allowance	20,956	20,880
Housing allowance for families with children	3,595	3,455
Care allowance for disabled children	2,232	2,481
Maintenance support	4,127	4,081
Child pension, etc.	1,045	1,055
Pension right for child-care years	3,831	4,051
Adoption allowance	41,000	44,000
Total	57,797	59,632
<b>Financial security in sickness and disability</b>		
Sickness insurance	48,552	44,613
Medical-care benefits, etc.	2,829	4,052
Disability pension, sickness or activity compensation	58,527	63,472
Housing supplement for disabled pensioners	3,370	3,471
Disability allowance	1,200	1,225
Work injury compensation	6,371	6,493
Car allowance	215,000	332,000
Assistance allowance	11,165	12,775
Other benefits	27,000	12,000
Total	132,255	136,445
<b>Financial security in old age, etc.</b>		
Old-age pension	180,046	186,555
Survivor's pension	15,611	15,827
Housing supplement for pensioners	7,607	7,384
Maintenance for the elderly	634,000	654,000
Partial pension*	104,000	37,000
Other pensions**	61,000	61,000
Total	204,064	210,518
<b>Other payments</b>		
Activity support***	9,684	10,300
Daily cash benefit to total-defence conscripts, etc.	5,000	5,000
Family allowance for conscripts	78,000	78,000
Other	37,000	37,000
Total	9,804	10,420
<b>Administration</b>	<b>10,565</b>	<b>11,071</b>
<b>Total</b>	<b>414,485</b>	<b>428,049</b>

Source: RFV 2004

\* This system is currently being phased out. The last part-time pensions were converted to old-age pensions in 2004.

\*\* Voluntary pension and the seafarer's pension.

\*\*\* Activity support is given to participants in active labour-market policy programmes

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