Impact of the recession on age management policies: Sweden
Labour market developments and the ageing workforce

Employment rates
Sweden has sustained high employment levels in comparison with the EU27 average throughout the last decade. This can largely be explained by Sweden’s high labour force participation rates, and particularly high participation among women, 68.1% in 2010 compared to the 57% EU27 average. Labour market participation rates of women in Sweden have been increasing as their cohorts age. This cohort effect is stabilising, having reached all age groups in 2005 (Hallberg, 2007).

Comparing employment rates among women in Sweden and the EU27, the effect of higher participation seems to be observable with an average 15-percentage point higher employment rate among women in Sweden in the third quarter of 2010 (average difference across age groups) (Figure 1). This gap has been closing in most age groups in the period from 2001 to the third quarter of 2010.

Figure 1: Women’s employment in Sweden and EU27 by age group, 2001–2010 (%)

Source: Eurostat

Sweden also maintained a higher overall participation rate throughout the last decade compared with the EU27. The difference between Sweden and the EU27 in the third quarter of 2010 is evident among younger workers (gap of 13.1 percentage points in the 15–19 group and 11 percentage points in the 20–24 group), and particularly among older workers (19 percentage points in the 55–59 group and 32.2 percentage points in the 60–64 group).

The higher levels of participation are matched by higher employment levels, with Sweden significantly above the overall employment rate in the EU27 throughout the last decade. The difference is particularly large for older workers of both genders. In the third quarter of 2010, the average difference in age groups between Sweden and the EU27 was 10.2 percentage points, but the difference in the 55–59 age group was 19.5 percentage points and in the 60–64 age group it reached 30.7 percentage points (see Figure 2).
It should also be noted that there has been a steady increase in the number of workers aged 65 and over in Sweden, following a reform in 2000 that ended obligatory retirement at age 65. Initial statistical studies into this group suggest that working beyond the age of 65 is highly correlated with higher education levels and good health. Examples of groups with a particularly high probability of continuing to work are the self-employed and academics. However, some low-income groups are also overrepresented among those working beyond the age of 65, suggesting that they might be working longer for financial reasons (Klevmarken, 2010). The increase in employment for workers aged 65 and over has been higher in the public than the private sector; however, no studies into potential reasons for this are available (Sjögren-Lindquist and Wadensjö, 2009).

Figure 2: Employment in Sweden and EU27 by age group, 2001–2010 (%)

Source: Eurostat

The higher employment level is also evident for men, with participation rates similar to the EU27 average throughout the decade. At age 50 and above, however, the EU27 average for workers still active in the labour market falls more rapidly than the average in Sweden (Figure 3).
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Figure 3: Men’s employment in Sweden and EU27 by age group, 2001–2010 (%)

Unemployment rates
The unemployment rate in Sweden increased from 2001 to 2007 and accelerated, after a short recovery, throughout the financial crisis. Despite increasing unemployment rates overall, rates among those aged 25–64 have remained below the EU27 average throughout the decade and have also shown a quicker recovery between 2009 and 2010, mirroring the general economic trend of a more rapid recovery in Sweden compared with the EU27 averages (Riksbanken, 2010).

The most notable increase in unemployment in Sweden has been among those aged 15–24. The unemployment rate in this group was lower than the EU27 average in 2001, but has risen sharply in 2007 and remained above EU27 average levels during the financial crisis. More than twice as many 15–24-year-olds were out of work than 25–49-year-olds during this period. This trend then began to reverse at the end of 2010, with a sharp drop in youth unemployment in the third quarter that almost entirely closed the gap in relation to the EU27 average (Figure 4).
This pattern has also meant that youth unemployment has been high on the political agenda. It was a dominant issue during the 2010 national elections in Sweden (interview with policy officer, Department for Labour Market). Several initiatives were aimed at this age group, including a reduction in employers’ taxes for hiring workers under 26, and a number of policies aimed at activating young people outside the labour market, such as a job-guarantee programme, the ‘Lift’ programme and subsidies for young entrepreneurs (Ministry of Employment, 2010).

**Impact of education on employment**

Employment rates in Sweden are particularly strong compared to those for the rest of the EU27 for workers with education levels 3–4 according to UNESCO’s International Standard Classification of Education. But overall employment rates in Sweden are also high relative to other European countries at all educational levels (Figure 5).
Old-age dependency ratio

The increase in old-age dependency rates predicted across Europe occurred somewhat earlier in Sweden, with higher rates than the EU27 average sustained during the last 10 years. However, growth after 2015 is predicted to be less rapid in Sweden compared to the rest of Europe, meaning that the old-age dependency rate in Sweden could be considerably lower than the EU27 average by 2040 (Figure 6).

Figure 6: Current and forecast old-age dependency ratio in Sweden and EU27, 2001–2040

Source: Eurostat
Exit from the labour market
Sweden has two main categories of possible exit from the labour market for older workers; pension schemes and benefit schemes.

Pension system
The Swedish pension system has three main pillars: the guarantee pension, the premium pension and occupational pension schemes.

The guarantee pension is a basic income-tested ‘top-up’ pension scheme for people with very low pensions from the premium and occupational pension schemes. The guarantee pension is available from the age of 65 and deductions can be made from it only in relation to other pension income. This makes it possible to combine work and receipt of guarantee pension. The yearly maximum of the guarantee pension in 2006 was SEK 84,561 (€9,137$1), and this can be supplemented by a means-tested housing-benefit (OECD, 2009). This type of pension is used by approximately 30% of pensioners, with only 1% receiving the maximum in 2010 (Government Directive, 2011).

The premium pension is based on an effective contribution rate of 2.325% of gross income, paid into a personal pension account, which can be invested through a selection of fund managers.

In addition to this, there are four major occupational income schemes that cover around 90% of employees with defined contribution plans (4.5% of salary contributed up to SEK 333,750 (€36,063), and 30% of salary over that amount in 2006, according to the ITP12 plan) (OECD, 2009). The Swedish pension system was fundamentally reformed in 1999 following the Swedish banking crisis earlier in that decade. The new rules apply to workers born in 1954 or later who can choose to retire anytime after the age of 61 and be covered by the two contribution schemes, but can only obtain the minimum income guarantee pension after the age of 65. Since 2000, employees have the right to remain in employment until the age of 67, and earlier termination by employers is subjected to normal LAS (law of employment protection) procedures for ending employment contracts. These procedures stipulate seniority as the primary criterion for selecting which employees are made redundant within staff categories, using the principle of ‘last in, first out’. Even though trade unions and employers are permitted to negotiate alternative criteria, this seldom happens (interview with policy officer, Ministry of Employment; interview with employer association). Assuming that older workers generally have been employed for a longer period with a particular company, workers aged 65–67 received considerable employment protection with the new regulation. After age 67, mandatory retirement without the LAS procedure is still possible, although an extension of the protected period up to the age of 69 is being discussed (interviews with policy officer, Ministry of Employment; interview with employer association).

In order to finance the pension scheme and incentivise working longer, the 1999 reform of the pension system introduced an automatic adjustment of the amount of pension payable based on a calculated difference between the individual age of retirement and the average life expectancy of the population as a whole over the last five years (OECD, 2009). This creates an incentive to retire as late as possible, even though the possibility of retiring exists from the age of 61. Calculations made by the national insurance agency in Sweden show that for workers born in 1940, 1960 and 1990, working to the age of 65 years and nine months, 67 years and 68 years respectively is needed to reach the same degree of compensation as those born in the 1930s (Hallberg, 2007).

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1 Yearly average exchange rate, retrieved from Eurostat (used from here on)
2 Supplementary pension for industrial salaried employees.
Since 2009, the government has subsidised employment for workers age 65 and above by exempting their wages from the contribution tax that employers normally pay for all employees, to provide an additional incentive for employers to employ this group (Government Communication, Prime Minister’s Office, 2008).

**Benefit schemes**

There have been several other ways of leaving the labour market that have been widely used by older workers in Sweden. A 2002 study undertaken by the National Insurance Authority identified four main routes: early retirement (due to sickness), unemployment benefit, occupational pension schemes and sickness insurance (Riksförsäkringsverket, 2002).

Of these, early retirement due to sickness was the most common path of exit, with 15% of 55–59-year-olds and approximately 30%–35% of 60–64-year-olds using this opportunity to exit the labour market. Unemployment benefits were used by 10% of 55–59-year-olds, and occupational pension schemes by 25% of 60-64-year-olds (Hallberg, 2007). However, uptake of these exit schemes changed dramatically after a new government was elected in 2006, beginning a major reorientation of these policies from 2008 onwards. Changes include shorter time limits for unemployment benefits, lower compensation levels and a greater requirement for the unemployed to remain economically active. The sickness insurance system has also been overhauled, introducing the ‘rehabilitation chain’ with maximum periods of sick leave and the automatic transfer of workers into active employment programmes at certain time intervals, with the exception only of cases of very serious illness (Government Communication, Prime Minister’s Office, 2009).

**Retirement age**

The average retirement age rose steadily in Sweden between 2001 and 2009, reaching 64.7 years for men and 64 years for women in 2009. This is significantly higher than the EU27 averages of 61.8 for men and 61 for women (see Figures 7 and 8). However, the Swedish government also uses another measure, recognising that many people who retire at the age of 65 have been supported by sick leave systems or other benefits for an extended period of time. The additional measure calculates how long people have been part of the workforce since the age of 50, given that they were part of the workforce at age 50. Using this method, the average age of leaving the workforce was 63 years in 2010, only a few months higher than average retirement age in the 1980s, while the average life expectancy and age at which people enter the workforce have risen faster than exit age (Government Directive, 2011).

Figure 7: Average exit age from the labour market in Sweden and EU27 by gender, 2001–2009

![Average exit age from the labour market in Sweden and EU27 by gender, 2001–2009](image-url)
The issue of an ageing workforce is considered in the context of demographic developments and future difficulties in financing the public sector in Sweden. Government concerns in this area are dominated by a discussion about raising productivity and the number of hours worked, and this has been the direction of policy development. This might also be linked to the fact that most policy developments have consisted of macro-level policy changes, focused on altering incentives to stimulate both supply of and demand for labour, rather than specific micro-level measures, such as age management strategy on an organisational level.

Focus of age management policy

The national approach to organisational age management policies has primarily been to provide employers with incentives to employ older workers as well as addressing discriminatory practices. However, the primary focus has been on a generational shift within the labour market, with a large older cohort leaving the labour market while a younger cohort is entering it, prioritising entrance of the younger generation rather than managing the older generation (interview with employer organisation). High unemployment rates among younger cohorts have been the primary focus in Swedish national debates concerning the ageing workforce (interview with policy officer, Ministry for Employment). Social partners in Sweden are closely involved in policy discussions on all labour market policies and have the opportunity to submit written statements before any policy is passed (interview with employer organisation; interviews with trade union). However, age management on an organisational level is not widely discussed or seen as an important concept in the debate, leaving a large amount of discretion for employers about how to implement age management policies, as long as they conform to general requirements for all workers (interviews with employer organisation, trade union and Ministry of Employment).

Impact of demographic change

There is a broad consensus in Sweden that demographic change and population ageing constitute a major challenge, and that average retirement age and the number of hours worked in the economy need to increase. This was one of the
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impetuses for the major structural reforms of the pension system and for limiting opportunities for early exit from the labour market for older workers before 2000 (Olofsson et al, 2007). In 2003, a major parliamentary inquiry, ‘Senior 2005’, delivered its final recommendations to the government. The inquiry took a very broad approach with the goal of increasing labour force participation up to and beyond the age of 65. The inquiry looked at many factors, from the role of the pension system and other social security systems to the need to adapt jobs to the demands of an older workforce and changing society’s attitudes. The report delivered 100 policy recommendations to the government (Ministry of Health and Social Affairs, 2003). However, these policy suggestions were vague and overarching in nature, and to a large extent contained recommendations to investigate further. With the election of a new government in 2006, the policy focus shifted more towards looking at specific incentives and benefit systems (interview with policy officer, Ministry of Employment).

Pension system

Despite the consensus in the public debate about the need for longer working lives, practices in Swedish firms and organisations sometimes contradict this. A common practice during restructuring has long been to use occupational pension schemes to allow older workers exit from the labour force, both in public and private organisations (Olofsson et al, 2007), and this could be related to the strict seniority rules governing redundancies in the Swedish labour market (interviews with employer organisation and Ministry of Employment). Although this practice is still common, several experts involved in the policy field today assert that it has declined markedly as the changes in the pension system have made it increasingly expensive (interviews with employer organisation and Ministry of Employment). However, several occupational pensions schemes are designed in such a way that pensions cannot be increased if the recipient works beyond the age of 65, and many pension schemes can be activated from the age of 55, with some offering the possibility of making continuing pension contributions up to the age of 65 even though the employee has retired at the age of 62. At most places of work, there remains the expectation that employees will retire at 65 and there seems to be little willingness among either employers or unions to change this (Olsson, 2011). Nonetheless, the actual share of employees aged 65–74 who remain in work has increased by 80% between 2001 and 2009, reaching 18% for men and 7% for women. This is considerably higher than the corresponding 6% increase in the number of those aged 20–64 in the labour market. The propensity to remain in work is higher the more qualified workers become, and workers are half as likely to retire if they are self-employed (Klevmarken, 2010).

Encouraging age diversity in the workforce

Policy developments between 2000 and 2008 addressing the issue of an older workforce have mainly focused on altering incentives to stimulate the demand for and supply of labour in older age groups as well as enhancing anti-discrimination policies. In 2000, the right to work was extended from the age of 65 to 67. However, the most far-reaching policy initiatives were implemented later in the decade, particularly after the change in government in 2006.

The incoming government’s ‘Work first’ programme was a strong policy priority and involved the introduction of general measures to stimulate the supply of labour, such as an in-work tax credit that significantly lowered taxes for all those in employment. This altered the relative gains from pensions, since pensions were excluded from the tax credit. Significant changes were also made to Sweden’s sick leave regulations, introducing fixed maximum terms for compensation, a more active sick leave rehabilitation process, and decreasing the attractiveness of the compensation (Government Communication, Prime Minister’s Office, 2008). Furthermore, it introduced measures targeted at older workers. The general in-work tax credit was higher for workers aged 65 and older, so that the difference between net work income and net pension income became even greater. The special employer contribution was eliminated for workers aged 65 and older to make them less costly to hire (and a similar measure was also implemented for those under the age of 26) (ibid, 2008).

3 For the ITP2 plan, see: http://www.spp.se/site/spp.nsf/pages/avtalspension-nardugaripension.html.
The government also introduced a programme called ‘New start jobs’ in January 2007, in which employers could get subsidies for hiring workers who had been out of work for more than one year, with compensation in parity with the rate of their social security contribution. The time that an employer could receive this was extended from the length of time of previous unemployment to double the length of time of the previous period of unemployment for workers aged 55 and above. This was also extended in 2008 to include those previously on sick leave, giving a higher subsidy to employers (Government Communication, Prime Minister’s Office, 2009).

**Crisis effects on recent policy initiatives**

**Factors influencing economic recovery**

The financial crisis had a particularly negative effect on Swedish gross domestic product (GDP) in comparison with the euro zone. However, the Swedish recovery came both faster and stronger than in the euro zone and the United States. The initial strong decline in Sweden was tied to the nature of the Swedish economy, which has a small internal market and is very export-dependent. Because of this, the negative shock for world trade hit the Swedish economy harder than many other countries, with a 15% decline in exports. Further difficulties arose because a high share of Swedish exports are goods for which consumption can easily be postponed (for example, cars). This negative factor in downturn has, however, proven to be the opposite in upswing. Demand for Swedish export goods has risen surprisingly quickly, with the economy growing at 5.7% in 2010.\(^4\) Two other factors that help to explain Sweden’s relatively strong recovery are the very strong nature of public finances, being an average of 1% in surplus during the 10 years preceding the crisis, and the relative stability of the Swedish banking sector (Riksbanken, 2010).

Unemployment in Sweden rose by 2.5% from the end of 2008, reaching a little under 9% in 2009. This increase in unemployment could be attributed to the decreasing international demand for Swedish exports and a decrease in investments. Most job losses occurred in export industries, such as the automotive sector, where labour intensity is comparatively low, and in some services sectors and public employment. Though job recovery has been on the slow side in the affected industries, the Swedish Riksbank believes that the financial crisis had little effect on long-term unemployment levels in Sweden (Riksbanken, 2011).

**Workforce ageing and pension system**

During the financial crisis, no discernable policy reform was targeted at workforce ageing. A subsidy for hiring long-term unemployed older workers was prolonged, but this was motivated by the financial crisis and was seen as a fine tuning of existing policy (interview with policy officer, Ministry of Employment). Part of the explanation for this might be that, unlike many European pension systems, the Swedish pension system cannot be underfinanced. The reason for this is because automatic adjustments are made to the size of pensions based on the value of the underlying fund. The eligible pension age was 61 years in 2010, but it is very rare for individuals in Sweden to take their pension at this age because it would reduce the value of their pension considerably. As a result, pension age limits were not discussed (Olsson, 2011).

There is some evidence to suggest that the new pension system introduced at the end of the 1990s will moderate the effects on old-age employment of the 2011 crisis in comparison to the 2001 crisis in Sweden. This assumption is based on previous studies where comparable decreases in pension sizes in other contexts have generally increased the average pension age (Sjögren-Lindquist and Wadensjö, 2009).

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\(^4\) Source: OECD.Stat
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Efforts to prolong working lives
Despite the low activity during the financial crisis in policy formation, a new inquiry was launched in April 2011. This is meant to be a full governmental review of pension-related age limits and possible measures to prolong working lives.

The review emphasises the need for a differentiated approach, helping certain groups to continue working after the age of 65 and other groups to continue working up to the age of 65. The inquiry will look into all types of age limits relating to retirement and suggest how these could be altered to raise the average number of hours worked. The review will also investigate and provide suggestions relating to rules and regulations, attitudes towards older workers and working environments that hinder a longer working life. Specific directives require investigation of the behaviour of both employers and employees in relation to pensions. Investigations are also to be made into what prevents people working beyond the age of 65 years. The physical working environment is seen to be a part of this, but ‘new’ issues such as psychosocial environments, the organisation of working life, access to adult education, working times, and opportunities for part-time working are emphasised (Government Directive, 2011).

Summary
Sweden’s experience during the earlier banking crisis and subsequent changes to the pension system, budgetary discipline and banking system stability seem to have acted as advance preparation for the 2008 financial crisis. As a result, there has been no debate in Sweden about the need for reform of the pension system or for large fiscal policy contractions.

Sweden’s attempts to prolong working lives have primarily been focused on the reform of the sick leave system, to stop this being used as a route to early retirement. The reform is still in its early stages, but there has been a gradual decrease in sick leave since the middle of the 2000s. Generally, the direction of Swedish policy is to increase the amount of hours worked by all workers rather than target policies specifically at the older age group, even though some particular policies have been tweaked to gear them towards the needs of specific age groups among the unemployed, both the young and the old.

The Swedish government seems to attach more importance to the issue of prolonging working lives. The inquiry launched in 2011 will focus on barriers to longer working lives, both physical and psychosocial as well as through thoroughly investigating of all types of time limits built into social security systems, private and public insurance and other regulation that might incentivise or encourage retirement (Government Directive, 2011).

List of interviewees
Roger Mörtvik, Director of Policy, Swedish Confederation of Professional Employees (TCO)
Karin Ekenger, Expert on labour force, Confederation of Swedish Enterprise (Svenskt Näringsliv)
Patrik Karlsson, Expert on labour force competencies, Confederation of Swedish Enterprise (Svenskt Näringsliv)
Marie Åkhagen, Director, Swedish Ministry of Employment
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(All Eurofound publications are available at http://www.eurofound.europa.eu)

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