

# Denmark

## A stay of execution for the unemployment benefit system?

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Whereas in 2008 Denmark was facing a historically low rate of unemployment, the country has since been hit by the economic and financial crisis. The unemployment rate rose sharply at the beginning of 2009. Although they remain very cautious, the unemployment forecasts for the next two years are a cause for some concern.

1993 marked a turning point in Denmark's rate of unemployment. After rising rapidly in the late 1980s and early 1990s, unemployment underwent a significant decline from 1993 onwards: the rate fell from almost 12.5% in 1993 to 5.7% in 1999 and 4.8% in 2005. It reached its lowest level of 2% (one of the lowest in the European Union) in 2008 but increased markedly during the first quarter of 2009, rising to approximately 3.3% (Danmarks Statistik, April 2009).

The Danish economy has nevertheless remained vibrant and responsive: the journal of the employers' association *Dansk Arbejdsgiverforening* (DA) has in fact published an analysis showing that almost half of all employees who lost their jobs last November as a result of the crisis found new employment over the course of the following four weeks (Planet Labor, March 2009).

In 2008, the risk of labour shortages led the liberal government of Anders Fogh Rasmussen to propose changes to the unemployment insurance system (mainly by shortening benefit periods). Even the opposition was prepared to listen. However, the financial crisis and its repercussions are likely to alter the characteristics of Denmark's economy in the years ahead and will no doubt accelerate the transformation of the current system. Future developments may well go to show that Denmark's unemployment benefit system - regarded as a mainstay of Danish

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workers' feeling of security and a key component of flexicurity<sup>1</sup> - is for the time being experiencing a stay of execution.

## Original and specific features of the unemployment insurance system

Denmark, known for its liberal approach to employment policy (Henning, 2003), introduced in 1994 a reform which broke with the previous trend<sup>2</sup> and set up a relatively active employment policy. The reform imposed on jobseekers the principle of both rights (with the guarantee of an adequate replacement income and help in their search for employment) and duties (to actively seek work, be available for training, etc.). The government and the social partners are jointly responsible for determining the goals of the country's employment policy. The combination of low-level employment protection and generous unemployment benefits is strongly supported by all the social partners, both trade unions and employers.

As a result of a reform adopted in 2007, the two institutional systems established to manage jobseekers are now being brought together so as to create a single network of agencies catering for people in search of employment.

Employment policy goals differ from one region to another (as has been the case since 1994), taking into account particular regional requirements. This is a specific feature of Danish employment policy, which involves various national and regional stakeholders.

Thus guidelines, or objectives, are issued by the National Employment Council (a tripartite body chaired by the Minister and comprising representatives from the employers' confederation *Dansk Arbejdsgiverforening* (DA), the trade unions and the local authorities). The guidelines are then monitored nationally by the Labour Market

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1. On the Danish model of flexicurity, please refer to the article by Katrine Sondergard, '*La flexicurité danoise et tout ce qui l'entoure*', *Chronique Internationale de l'IRES*, No. 110, January 2008.
  2. Insurance funds first appeared at the end of the 19th century in the form of 'monetary relief funds run by the trade unions. The aid paid out was funded solely from members' contributions. Not until 1907, with the law on insurance funds, did the government begin to subsidise the existing unemployment insurance funds, on condition that they subject themselves to state control. The funds remain responsible for collecting contributions, allocating benefits and placing jobseekers in work (Assedic Infos, 2008).

Board (AMS), a department of the Ministry of Employment. The AMS, responsible for overseeing the labour market, produces analyses and forecasts in order to provide necessary information for the regional labour market councils and for stakeholders in the world of work. One of the main tasks entrusted to the AMS and the regional bodies is to monitor 'bottlenecks' in certain sectors: particular attention is paid to these and they are the subject of regular publications. The AMS is also responsible for coordinating and overseeing all active labour market policies.

At regional level, executive power lies with the regional employment councils. It is their duty to lay down the aims of the regional employment agencies.

At local level, lastly, it is the task of the employment agencies to provide guidance and support for jobseekers, whether or not in receipt of benefit.

As already indicated, the 2007 reform merged all the local employment offices into 91 *Jobcentres*. The *Jobcentres*, which provide support for the unemployed, bring together under one roof the government services responsible for placing benefit recipients in work and the local authority services responsible for finding work for unemployed persons not in receipt of benefit. The purpose of the merger was to simplify matters for companies when seeking to recruit new employees, so that all jobseekers and all companies can henceforth use a single local agency.

The *Jobcentres* are independent units operating for the sake of companies, people in work and the unemployed, whether or not in receipt of benefit. They advise companies and workers on recruitment, jobs and training, they maintain contact with companies, including in the form of support for new recruits and assistance with recruitment, they assist people who are experiencing difficulty in their search for work, they draw up individual job search plans and they provide help with activation.

## **A dual system of unemployment benefit**

Denmark's unemployment benefit system consists of two strands. One, unemployment insurance, is voluntary and is governed by the law of 11 September 2005 on unemployment insurance; the other, unemployment assistance, which is governed by the law on active social policy, ensures a subsistence income where necessary.

Membership of an unemployment insurance scheme is optional in Denmark. The system covers workers in the private sector, the self-employed, and public sector employees who have chosen to join an insurance fund. The number of members is more than 2.2 million out of a working population of 2.8 million, representing just over 80% of the labour force. In reality, however, the coverage rate is closer to 75% if one takes account of the fact that early retirement allowances likewise come out of unemployment insurance (Danmarks Statistik, 2008).

Table 1 Members of unemployment insurance funds (as at 1 January of each year)

	2007	2008
Total	2,255,569	2,086,488
Full-time insured workers	2,220,297	2,061,776
Part-time insured workers	35,272	24,712

Source: Danmarks Statistik, Statistical Yearbook, 2009. The figures for 2009 have not yet been published on the website.

Unemployment insurance funds are non-profit-making associations established under private law. They are founded by organisations of employees or self-employed workers in order to ensure a replacement income for any of their members who find themselves without work. There are 33 such funds (*a-kasse*) and they are approved by the government. The funds were traditionally connected with the trade unions, even though they were independent in principle and open to people not belonging to a union. The last point to be made about these funds is that they pay out daily allowances (*dagpenge*) to claimants meeting the eligibility criteria, but they also disburse early retirement allowances.

Despite the onset of the financial crisis, the number of workers registered with unemployment insurance funds is declining: during October and November 2008 the funds lost 4,359 members, or 0.21% of all insured workers, even though unemployment went up over the same period (Plant Labor, January 2009). This drop in the number of those insured could have serious consequences at a time of economic uncertainty or mass redundancies.

### Conditions for membership of a fund

Members must:

- be employed or self-employed; or
- be the spouse of a self-employed worker and help to run his/her business (either as an employee or on a self-employed basis); or
- have undertaken at least 18 months of vocational or continuing training and register within two weeks of the end of the course; or
- be performing military service (or be a conscientious objector or a woman serving voluntarily in the army); or
- have held municipal office (mayor, town councillor or committee chairperson), or be a Member of the Danish Parliament, the Danish Government or the European Parliament.

Moreover, members must be permanently resident in Denmark (or work in Denmark if resident in another country), be between 18 and 63 years of age and belong to one of the occupations covered by the fund.

Self-employed workers must be insured on a full-time basis, whereas employees may be insured either part-time or full-time.

Until 2002, each fund covered a particular occupation or sector of the economy. Since 1 September 2002, however, following a reform put through by the liberal-conservative government in the face of trade union opposition, several funds have begun to operate on a cross-industry basis. Single-occupation funds currently exist alongside cross-industry funds. The number of funds has varied since September 2002, since new ones have been established and others have merged. These fluctuations result from the new stipulation that any newly established fund must have 10,000 members (previously 5,000 members were necessary). This requirement led to quite a few shifts and amalgamations. The reform standardised the benefit allocation rules for all funds; the only distinction between them now lies in the services, information and advice they offer to their members. Satisfaction surveys are conducted by the ministerial department every two years and published by way of information for members of the various funds (Assedic Infos, 2008).

## **A very generous and active benefit system, but for how much longer?**

In general terms, membership of an unemployment insurance fund is a prerequisite for entitlement to unemployment benefit. In addition, the jobseeker must have been a member of a fund for 12 months and still be a member when applying for benefits. He/she must also have worked for at least 1,924 hours (i.e. 52 weeks full-time) during the previous three years, in the case of workers insured on a full-time basis, or 1,258 hours (34 weeks full-time equivalent) for part-time workers (Mansuy, 2005).

During his/her benefit period, the claimant must be registered as a jobseeker with the local *Jobcentre* and must be actively seeking work. The job search must be active in the sense that the person must accept any job offer, even if it is not within his/her usual field of work. Penalties are imposed on anyone who behaves in such a way as to be turned down for a post, with the fund deciding what constitutes improper conduct. Furthermore, benefit is immediately suspended in the following cases: failure to attend an interview with the employment services or to answer a letter from them, not complying with one's individual job search plan or not attending a training course.

Unemployment benefit amounts to 90% of the reference wage<sup>3</sup>, subject to a ceiling of around DKK 14,798.33 per month (or € 1,985). In practice, the average rate of benefit is around 55% of the person's former wage or salary. Besides, a minimum amount (82% of the above-mentioned ceiling) is guaranteed to claimants who can provide evidence of three years' full-time work and three years' membership of an insurance fund (on a full-time basis). This minimum amount applies in particular to claimants who do not have a reference wage, such as fund members who are completing a vocational training course lasting at least 18 months, or people who are members of a fund during their military service<sup>4</sup>.

3. The reference wage is calculated on the basis of the claimant's gross earnings in the three months or 12 weeks preceding the start of unemployment, provided that the number of hours worked during this period is at least two thirds of full-time hours. Where this condition is not met, the reference wage is calculated based on an earlier period of equivalent duration. All sums paid to the employee during the last three months are taken into account in the calculation, including for example any special bonuses (Assedic Infos, 2008).
4. People belonging to a fund during their military service, who were members before it and can provide evidence of previous gainful employment, are covered by common-law rules entitling them to benefits equal to 90% of the reference wage, subject to the ceiling indicated (Assedic Infos, 2008).

The allowance payable to people with partial insurance is equal to 90% of the reference wage (as for those insured on a full-time basis), but the ceiling is reduced to two thirds of the upper limit for those insured on a full-time basis, i.e. € 1,323 per month.

Benefits are disbursed for four years (208 weeks), including during activation periods, and the four years are counted over a reference period of six years. People who turned 54 before 1 January 2007 and who are aged 55 or more at the end of the maximum benefit period may continue claiming up to the age of 60. Finally, entitlement to unemployment benefit ceases in all cases on reaching the age of 65.

Out of a total of 142,800 people registered as unemployed in June 2005, 115,300 received full-time insurance payouts and 2,000 received part-time benefit. Just 25,500 were uninsured. In 2008, there were 67,784 registered unemployed in January and 62,702 in February. The proportion of people out of work and uninsured has risen since 2005 (from 17% to 25% approximately). This trend may result partly from an increase in the number of young employees not joining unemployment insurance funds.

Table 2 Insured and uninsured jobseekers in 2007

	Jobseekers			Jobseekers (in % of the working population)		
	Men	Women	Total	Men	Women	Total
Total	40,725	53,297	94,021	2.8	4	3.4
Full-time insured	31,464	42,165	73,629	3	4.1	3.6
Part-time insured	108	1,008	1,116	8.6	4.3	4.5
Uninsured	9,152	10,124	19,276	2.2	3.6	2.8

Source: Danmarks Statistik, Statistical Yearbook, 2008.

Denmark's unemployment rate fell spectacularly in less than five years: by roughly 74% (Planet Labor, 2008). This decline in the unemployment rate affected all categories of working people including older workers. Some analysts explain this drop in the unemployment rate for older workers on the grounds that, when older workers are made redundant, they prefer to opt for early retirement rather than claiming unemployment benefit. This hypothesis would appear to be borne out in the case of older women: 62% of female employees over the age of 60 have taken early retirement, compared with 18% of male employees of the same age (Danmarks Statistik website).

Table 3 Jobseekers by age and sex in 2007 (in % of the working population)

	Men	Women	Total
16-17	0	0	0
18-19	1.4	1.4	1.4
20-24	2.4	3	2.7
25-29	3.3	5.1	4.1
30-34	3.1	5.3	4.2
35-39	2.8	4.7	3.7
40-44	2.6	3.8	3.2
45-49	2.6	3.1	2.8
50-54	2.5	2.9	2.7
55-59	3.5	4.8	4.2
60-64	3.7	5.8	4.5
Total	2.8	4	3.4

Source: Danmarks Statistik, Statistical Yearbook, 2008.

As far as insured jobseekers are concerned, the Danish statistics indicate that the three main reasons given for becoming unemployed are redundancy, the end of training leave and resignation.

Table 4 Recipients of unemployment insurance benefits by reason for unemployment in 2007 (in %)

	M01	M02	M03	M04	M05
Redundancy	57.6%	57.9%	57.3%	56.6%	54.9%
Short-time working	1.2%	0.9%	1.0%	0.8%	0.7%
Resignation	6.9%	6.9%	6.8%	7.1%	7.3%
National service – end of studies	4.5%	4.6%	5.5%	5.2%	5.0%
End of training leave (activation completed)	11.1%	10.7%	10.5%	10.8%	11.1%
End of training leave (other)	1.8%	1.8%	1.7%	1.7%	1.8%
End of parental leave	0.2%	0.2%	0.2%	0.2%	0.2%
End of maternity leave	1.5%	1.5%	1.5%	1.6%	1.7%
End of a break from labour market	1.7%	1.9%	2.0%	2.1%	2.7%
End of self-employment	2.7%	2.8%	2.9%	2.9%	3.0%
Reason for unemployment unknown	9.3%	9.2%	9.3%	9.7%	10.3%
Other	1.6%	1.6%	1.5%	1.4%	1.3%

Source: Danmarks Statistik website, 2008.

The exceptionally low rate of unemployment over the past few years has led to labour shortages for companies in certain sectors; this still holds true today in spite of the recession. Given this state of affairs, the trade unions, employers and government are attempting not only to retain 'grey gold' (older workers) on the labour market but also to attract youngsters.

For instance, in the case of older workers - who have done very well out of the country's excellent economic situation (their unemployment rate more than halved in the two years to 2008) - the government has recently attempted to revise both the age for early retirement and the duration of unemployment insurance benefit. The number of people in retirement, especially those having retired early, rose sharply during the 1990s, which brought down the unemployment rate by a significant amount. Now, even in these times of economic crisis, the government is trying to keep older workers in the workforce owing to bottlenecks in the labour market. In order to do so, it has launched a media campaign focusing on the 'talents' of older workers, in the hope of encouraging them to remain on the labour market and companies' human resources departments to recruit them. All these proposals form part of a set of recommendations put to the government by the Labour Market Commission, a body set up in December 2007 whose final report is to be submitted before the end of 2009. The report will map out strategies for boosting the population in work, with a view to achieving the government's economic targets for 2015. The Commission's proposal on unemployment insurance is that benefit payment periods be adjusted in step with the economic situation (longer when there is less demand for manpower and shorter during periods of robust job creation). This proposal has received a cool reception from the trade unions: although they are not totally impervious to the idea, they nevertheless suggest that a precondition for any discussion of more flexible payment periods should be an increase in the amount of benefit paid. According to LO, however, such a reform would be of limited value in terms of raising the number of people in the labour force.

The social partners (employers and trade unions) share similar views on the issue of unemployment benefit, given that the typically Danish system of flexicurity is largely based on striking a balance between weak employment protection and generous unemployment allowances<sup>5</sup>.

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5. For example, in 2004 the Ministry of Employment raised the possibility of extending the period of employment necessary in order to be eligible for unemployment insurance. In response, the employers and trade unions joined forces to insist that the government withdraw its proposal.

### **The government's 'four initiatives'**

Employment Minister Claus Hjort Frederiksen responded to the financial crisis on 19 March 2009 by unveiling some measures geared towards new jobseekers. The 'four initiatives to support employees threatened by unemployment' is a package containing four sets of measures to assist workers who fall victim to the recession:

- introducing more flexible rules regarding short-time working arrangements (two weeks' work followed by a two-week shutdown, instead of one week's work followed by a one-week shutdown);
- enabling faster access to the fund that finances job-search courses or retraining programmes lasting a maximum of eight weeks (this fund had hitherto been confined to employees of companies with at least 100 workers but is now accessible to employees of companies with at least 20 employees);
- establishing a national alert system seeking to help the unemployed to find a new job before the end of their notice period (a scheme being piloted by the regions);
- regularly publishing accurate statistics on the labour market situation (Planet Labor, March 2009).

## **An original method of funding: by the State and the insured**

Unemployment insurance benefits are financed out of a special Fund (the Unemployment Insurance Fund) whose revenue derives from two sources:

- two thirds from income tax and from the 'labour market contribution' paid by all employees and self-employed workers, whether or not they are members of an unemployment insurance fund. This sum currently amounts to 8% of earned income (or profit in the case of the self-employed);
- one third from members' contributions to their unemployment insurance fund.

The premium paid by members of unemployment insurance funds varies from one fund to another. It comprises the payment to the national

Unemployment Insurance Fund, which is fixed, and the payment made to the fund itself, which covers its administrative costs and the non-statutory services it provides (job-search assistance, training, supplementary cash benefits, etc.); this sum therefore varies from one fund to another. For those employed full-time, the annual contribution to the national Fund is set at eight times the maximum daily unemployment allowance granted by the scheme.

Specific contributory rates are set for people opting for partial insurance, with the normal contribution to the national Fund reduced by approximately a third; they may also pay into the supplementary pension fund ATP. Only people working part-time may opt for partial insurance, but part-time workers may choose to insure themselves at the full rate.

Furthermore, people may undertake to contribute to their unemployment insurance fund towards early retirement benefits (*efterløn*): the monthly premium for a full-time worker in 2005 was € 13.37. Finally, there are special contributory rates for young people and for people over the age of 60.

### **Helping those not covered by unemployment insurance: unemployment assistance**

Alongside the classic unemployment insurance arrangements, Denmark also has a system of unemployment assistance which, subject to certain conditions, pays out allowances to jobseekers who have no insurance or are not eligible to join an unemployment insurance fund. This safety net is available to everyone in Denmark, including jobseekers who have exhausted their entitlement to unemployment insurance payouts. It consists of two types of benefit: cash allowances (*kontanthjaelp*) and 'starter allowances' (*starthjaelp*).

These forms of assistance are designed as a minimum income to replace an individual's resources when he/she no longer has any, or to top them up when the claimant's own income is insufficient. The finances of all family members living under the same roof are taken into consideration. These allowances are taxable just like all other income, and their levels are set with reference to the maximum amount of unemployment benefit.

The conditions attached to disbursement of cash allowances relate to residence status (recipients must have been resident in Denmark for seven out of the last eight years) and resources (less than € 1,340 per month for a single person and € 2,680 for a couple). The amount payable varies according to the recipient's family circumstances (household expenses) and his/her age. Anyone unable to claim this allowance is entitled to a benefit known as a 'starter allowance', which likewise varies according to age and family circumstances: it amounts to approximately € 320 for a claimant under the age of 25 living with his/her parents and € 775 for a single person over the age of 25 (Assedic Infos, 2008).

Denmark's liberal-conservative government did however restrict access to benefits a few months ago by introducing a maximum individual upper limit of DKK 28,000 (€ 3,780) per adult per month, so as to prevent a combination of different family allowances - minimum income, housing benefit or loans to owner-occupiers and the various supplementary payments - from adding up to excessively large sums. There is currently fierce opposition to this move.

## **Generosity in exchange for obligations**

Denmark's active employment policy, as we have seen, is based on the notion of rights and duties. The *Jobcentres* and unemployment insurance funds are responsible for supervising jobseekers in their search for work and for ensuring that they comply with their personal employment plans. The two entities have to keep one another informed as to the situation of each individual jobseeker.

The obligations incumbent on the jobseeker are, firstly, to post his/her curriculum vitae on a website ([jobnet.dk](http://jobnet.dk)) which constitutes a CV database available to the public employment service, the unemployment insurance funds, jobseekers themselves and companies. Then, having identified themselves in this way, jobseekers must attend interviews once every three months with both the *Jobcentre* and the insurance fund. The purpose of these interviews is to check that the person is actively seeking work and to identify any suitable job offers. Jobseekers must in addition 'reactivate' their CVs weekly so as to confirm and prove that they are actively seeking work (Mansuy, 2005).

Failure to meet these obligations will of course result in penalties. For instance, if a job offer or an activity envisaged in the employment plan is turned down, or if the training schedule foreseen by the plan is broken off, a three-week suspension of benefit will ensue. Entitlement to benefit is withdrawn altogether if this situation occurs more than once in a year.

If, at one of the quarterly interviews, a claimant's efforts to find work are deemed inadequate, the fund or the *Jobcentre* may issue him/her with a warning. The person's job-seeking efforts will again be reviewed and evaluated three months later: should they again be deemed unsatisfactory, the jobseeker's benefit may be stopped. In order to regain his/her entitlement to benefit, he/she will have to give evidence of having worked for 300 hours within a minimum period of 10 weeks.

The penalty in the case of a jobseeker receiving unemployment insurance benefit consists of a one-third reduction in the allowance paid.

## Conclusion

In sum, the amount of benefit received by the unemployed in Denmark does not depend on the length of time spent out of work (within certain limits, however) and is more generous for people on low and average pay than for high earners (owing to the existence of a ceiling) (Boyer, 2006). The unemployment insurance system affords good protection, but one must not forget that it is dependent on active job-seeking and the acceptance of any job offered by the public employment service. Furthermore, although the rate of benefit paid is certainly high, the replacement earnings provided by these allowances appears much less generous once tax has been deducted. What is more, some individuals are excluded from this benefit system, which in reality protects around 75 to 80% of the working population. And the guaranteed subsistence allowance paid out by local authorities to jobseekers without insurance is subject to the same conditions.

It might seem surprising at first sight that the formal system of unemployment insurance is in fact a dual system for managing jobseekers, but as a result of the 2007 reform both jobseekers and companies are gradually beginning to deal with a single agency. Meanwhile, the local authorities are becoming increasingly influential in respect of helping the unemployed back into work. The reform has seen

something of an increase in the local authorities' powers, particularly through the growth in the number of staff working for the municipal employment services (almost ten times as many as work for the public employment service). However, this administrative reform gives the *Jobcentres* and the unemployment insurance funds much cause for concern: they complain of inadequate staff and resources, and are critical of the local authorities' lack of experience when it comes to tackling rising unemployment.

The fact nevertheless remains that Denmark's labour market is still vibrant and responsive, with the government keen to pursue more targeted, faster action in respect of new jobseekers.

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