

Sweden: supplementary Occupational Welfare with near universal coverage

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Introduction

Sweden has had, and to a significant degree still has, a comprehensive universal welfare system and public social insurance with income protection that covers all wage-earners. This might imply that the need for Occupational Welfare (OW), i.e. welfare provided by employers and/or trade unions, would be limited and that such systems would be few and residual. This is not however the case. There exists an extensive system of OW schemes in the form of insurance schemes for wage-earners that are nearly as uniform and universal as the public welfare systems. In this chapter, we argue, based on the reading of secondary literature and through interviews¹ with key stakeholders in the private sector, that the wide spread of OW in Sweden has been the result of the strength and organisational capacities of the social partners, enabling them to negotiate, create and develop schemes in different policy areas, covering large parts of the labour market. What is more, although occupational schemes have strong historical roots in Sweden, they have become more important, particularly in the areas of pensions and unemployment, over the last couple of decades. This recent trend has been largely determined by the fact that the Swedish welfare state has experienced retrenchment since the 1990s. In the case of occupational pensions, this retreat of the state has been orderly, mostly driven by the government, and conducted as a response to anticipated demographic change. In the case of unemployment-related schemes (we will be looking in particular at Employment Transitional Agreements), the shortfalls in the established system of statutory unemployment benefits and active labour market policies have led social partners to respond through new occupational provisions.

OW has mostly taken the form of supplementary systems topping up the benefits and entitlements provided by the state and municipal governments. Since such benefits and entitlements have been eroded since the severe economic crisis of the early 1990s combined with the subsequent ideologically motivated supply-side reforms by the centre-right-wing *Alliansen* government of 2006-2014, such supplements have become more important for the social security and welfare of wage-earners. As the replacement rates of statutory pensions and unemployment benefits have declined, the protection provided by Occupational Welfare – in most cases through bilateral deals between top-level labour market organisations – has increased. However, the

1. See list of interviews in the appendix.

coverage and replacement rates from such arrangements have not in all cases made up for the effects of welfare state retrenchment and have increased differences between labour market insiders and outsiders.

1. Occupational Welfare in Sweden: complementary schemes with wide coverage

Occupational Welfare (OW) in Sweden consists mainly of schemes created and primarily regulated through collective agreements between the social partners and provided by the latter. More often than not, the agreements have been made between top-level labour market organisations, although supplementary unemployment insurance schemes unilaterally provided by trade unions at industry level and company-level occupational pension schemes do exist. Both supplement statutory schemes. While supplementary unemployment benefits are paid out of funds administered by the unions but heavily regulated by the state, pension agreements are supplementary to the state pension system.

1.1 Stakeholders

It is important to start with a brief presentation of the main stakeholders, or players, in the field of OW. The three main trade union confederations are *Landsorganisationen i Sverige*, LO (The Swedish Trade Union Confederation), *Tjänstemännens Centralorganisation*, TCO (Swedish Confederation of Professional Employees), and *Sveriges Akademikers Centralorganisation*, SACO (Swedish Confederation of Professional Associations). A fourth is *Sveriges Arbetares Centralorganisation*, SAC, (Swedish Workers' Central Organisation), a syndicalist trade union which represents around 7,500 employees in all strands of the labour market. There is also an association for management executives, *Ledarna*, with 90,000 members, who do not belong to any of the three aforementioned confederations. The larger unions are broadly based on the 'industry principle', i.e. they are organised by economic sector in which employees work rather than by employees' trades. Union density is high but declining, falling from 80% in 2000 to 67% in 2013. Associations belonging to the TCO and SACO, representing employees in the private sector, also have a collaborative organisation for white-collar employees and professionals in the private sector, PTK, which also includes Ledarna. In a similar fashion, in the public sector several unions collaborate in the OFR (Public Employees' Negotiation Council, *Offentliganställdas Förhandlingsråd*). These are important in the context of this report, as they conclude agreements concerning both occupational pensions as well as Employment Transitional Agreements.

There are three employer confederations: *Svenskt Näringsliv*, SN (Confederation of Swedish Enterprise), with 49 private-sector business associations as members, *Sveriges Kommuner och Landsting*, SKL (Swedish Association of Local Authorities and Regions), of which all 290 municipalities and 20 county councils/regions are

members, and *Arbetsgivarverket* (Swedish Agency for Government Employers), which has 250 government agencies, enterprises and other employers related to the government sector as members. Membership density amongst employers in these organisations is high, around 80%.

Most OW benefits are covered by collective agreements concluded at confederation level, and the coverage rate is at least 90% of all employees for occupational pension schemes as well as for employment protection schemes. Employees are covered, regardless of their contract terms and whether they are union members or not. Occupational schemes regulated by collective agreements cover sickness, work-related injury, shortage of work, death and parental leave. The insurance provided is transferable between employers whose employees are covered by collective agreements. The basic benefits are universal, such as sick leave/disability/parental-leave insurance and occupational pensions, regardless of the type of contract, position, education and other discriminating criteria. Differences may occur in practice, since some issues are negotiated at local level. The basic benefits are also transferable to any other sector, while further protection is generally transferable within the sector, but not necessarily between sectors if a person moves to another sector.

In most cases, voluntary work-related insurance programmes are signed with AFA *Försäkring*, a non-profit insurance organisation owned by Sweden's social partners and established in 1963. The agreements are negotiated and signed at confederation level. AFA assets come from employer contributions. Most collective agreements include some sort of clause on affiliation to the AFA insurance package. AFA insures employees within the private sector, municipalities and county councils and covers more than four million employees (approx. 90% of the total workforce). The insurance plans are administered through *AFA Sjukförsäkring* (AFA Sickness Insurance), *AFA Trygghetsförsäkring* (AFA Work Injury Insurance) and *AFA Livförsäkring* (AFA Life Insurance). Each of these companies is the largest insurance provider in its field.

The employer organisations and trade union confederations also conclude certain types of cross-industry agreements, such as on pensions and collective insurance. One such type of agreement, *Employment Transitional Agreements* (ETA) gained importance at the start of the 21st century, especially in times of financial crisis (Sebardt 2006). Through this type of agreement, a percentage of the wage sum is paid into a fund – the largest are the *Employment Security Council* (*Trygghetsrådet, TRR*) for the private sector and the *Employment Security Fund* (*Trygghetsfonden*) for the public sector – which finances measures to help redundant workers find a new job or receive further training. In the event of redundancy or dismissal, the funds are able to offer both employers and trade union representatives' support and advice. More than 3 ½ million employees, whether trade union members or not, are now covered by these agreements, making up around 90% of all employees on the Swedish labour market. In addition to this support, many are also covered by AFA insurance on work termination due to shortage of work. In the following we will focus on ETA schemes.

1.2 Recent trends

Like several other countries, Sweden has experienced government cuts in statutory welfare schemes. In the Swedish case, however, this had more to do with the ideology of the government in power between 2006 and 2014 – the four-party liberal/centre-right-wing *Alliansen* (Eng. the Alliance) – than the financial crisis of 2008 and the austerity policies that followed in much of Europe. The policies of the *Alliansen* government had repercussions especially on unemployment insurance and on trade union membership: this had declined for ten years, but the decline was further accelerated after 2006. The insurance contributions were raised and the compensation decreased in real terms, as the cap on benefits did not increase with inflation or wage increases. At the same time, stricter rules on general health insurance were introduced. The government introduced income tax cuts for earned incomes at a cost of 140 billion Swedish Crowns (SEK) (ca. €15 billion). The political argument for these reforms was that they would boost the incentive to work. These policies affected Occupational Welfare in that they made it more important to protect the many active workers against social risks.

As a result of the national elections in 2014, a new government, consisting of the Social Democratic Party and the Green Party (*Miljöpartiet*), came into office. This has announced reforms that would reverse some of the steps taken by the former government. Such initiatives are however hampered by the fact that it is a minority government facing a comparatively well-coordinated opposition in parliament.

Another prominent issue under discussion is the adjustment of the pension system to increasing life expectancy and whether the regulations on retirement age should be revised. The debate tends to focus mostly on increasing the retirement age to delay exit. In April 2011, the government decided an investigation of the pension system to review patterns of work health and retirement among older workers, with a view to informing the government on whether a revision of the pension age should be considered. The debate regarding the statutory retirement age is ongoing and no definitive decision has yet been made.

The relative homogeneity of OW schemes means that there are few apparent differences between different groups on the labour market. The differences that do exist depend on whether employees are blue-collar workers covered by the agreements between SN and LO or whether they are white-collar employees and professionals covered by agreements between SN and PTK. However, as the conditions and risks differ in the various sectors, for example between workers in manufacturing industries competing on the global market and employees in public services, there are some tensions within the organisations signing the agreements. For the time being, an interest in comprehensive solutions seems – based on the stakeholder interviews conducted for this chapter – to have the upper hand on both sides². Conflicts are more

2. See list of interviews in the appendix.

focused on OW implementation and generosity rather than on a possible systemic change towards a more fragmented landscape.

2. Occupational pensions: increased importance since the state pension reform at the end of the 1990s

This part of the chapter gives an overview of the key traits of occupational pension schemes in Sweden. Occupational pensions are an important part of the pension system, accounting for an estimated 24% of total pension disbursement. The share of occupational pensions, the second pillar of the pension system, in pension replacement rates has gradually increased since the 1990s, to a significant degree due to the new pension system established in 2000, following the 1998 decision to reform the state pension system.

The history of pension funds in Sweden dates back to the mid-17th century, but they became more common in the 19th century. The first ‘modern’ occupational pension fund (*Sveriges Privatanställdas Pensionskassa*) was introduced by the influential capitalist families *Wallenberg* and *Söderberg* in 1917 and covered white-collar employees in their financial conglomerate. The first general public state pension was introduced in 1913, and was further developed in the late 1950s as the general supplementary pension (*Allmän Tilläggspension*, ATP), introduced after a general referendum in 1957 and a final deciding vote in the Swedish parliament in 1959. All citizens were given, as a supplement to their state pension (*Folkpensionen*, or People’s Pension), an additional pension in proportion to the income they had earned during their working lives; i.e. a defined-benefits (DB) pension.

With the establishment of an income-based state pension system, the need for occupational pension agreements for low- and middle-income employees decreased. However, the social partners were still somewhat interested in agreeing on occupational pensions to supplement the state pension system. Employers were more interested in regulating social protection through agreements – they had argued against the establishment of the ATP – and to a certain degree unions shared this interest, while at the same time gaining the goodwill of their members (Trampusch 2013, Olofsson 2015). From 1960 onwards, the social partners included occupational pensions in their collective agreements. Examples of such agreements are ITP in 1960 and *LOAvtalspension SAF-LO* (also known as STP) in 1974 (see examples below).

In the 1990s the ATP system was revised after decades of deliberation. The main reason behind this reform was that the ATP system was not considered to be sustainable in the long run, particularly after the economic crisis of the early 1990s. In 1991, the Conservative government established a working group that did not include any of the social partners on the labour market. There was consensus in parliament that the proposal issued by the working group should be implemented. LO, TCO and SACO were all critical of the reform but were for various reasons unable or unwilling to put up a united front (Anderson 2001, Palmer 2002).

The reform meant that state pensions would be based on lifetime contributions instead of being calculated on the basis of the income of the best 15 years, thus losing many of the system's redistributive effects. It also led to a switch to an earnings-related scheme with notional defined-contributions (NDC), in the form of a social security contribution equivalent to a 16% payroll tax on incomes, and a mandatory funded personal pension component (premium pension, in direct translation, i.e. a personal pension contribution) of a further 2.5% (18.5% in total). There is a ceiling of 7.5 times the statutory base income for employee contributions to the NDC and premium pensions (see above), though the employer still pays social security contributions for higher incomes. Furthermore, the new pension system meant that the second and third pillar became more important. At about the same time, the second pillar – occupational pensions – came under financial pressure, leading to a gradual switch from defined-benefit (DB) to defined-contribution (DC) pensions (Sjögren Lindquist and Wadensjö 2011a).

2.1 Institutional traits

While an occupational pension scheme is not mandatory, most employees are covered by one scheme or another through collective agreements. Coverage is at present around 90% of the workforce. Workers are basically covered by four central agreements between the confederations on the Swedish labour market: two for the private sector (ITP; *Avtalspension SAF LO*), which are described in additional detail below, and two for the public sector (PA03, now being replaced with the new PA16-agreement, and KAP-KL). These four major occupational pension agreements are summarised in Table 1. The schemes are mostly set up as defined contribution (DC) schemes, though they include defined benefit (DB) elements for government and other public employees (county councils/municipalities). Supplementary pension agreements at company level are rare (Furåker 2015b).

Table 1 Central Occupational Pension agreements between the social partners

Agreement	Covers	Social partners	Number of employees covered	Service company
Avtalspension SAF-LO	Private-sector workers	SN, LO	1,200,000	Fora
ITP	Private-sector white-collar employees	SN, PTK	900,000	Collectum
KAP-KL, AKAP-KL	Employees in municipalities and county councils	SKL, Pacta and numerous associations	1,200,000	KPA
PA 03, PA16	Government employees	Arbetsgivarverket and numerous associations	250,000	Kåpan

Source: SOU 2015: 68.

The payments are secured mainly in two ways: through insurance and provisions in an employer's balance sheet. The flow of collective insurance premiums and fees from the collective agreements is handled by different service companies (Fora, Collectum, KPA, and Kåpan) owned jointly by the social partners. The employee then chooses which company/companies (a fund-managing company, an insurance company or a bank) should manage the funds, from a list of choices established by the service company, and decides whether these should be managed as a traditional insurance or as a unit-linked insurance scheme. If the employee does not make a choice, the money is invested as stipulated in the collective agreement.

Taxes are only incurred paid when pensions are drawn as income after retirement. Pension account yields are also taxed on the basis of 15% of the sum on the account at the end of the year, multiplied by the government loan rate for the following year (0.58% for 2015).

Those lacking occupational pensions are either employed without a collective agreement, self-employed or have not entered the labour market. Employees not covered by a collective agreement may nevertheless have an individually negotiated occupational pension (Sjögren Lindquist and Wadensjö 2011a, SOU 2015: 68).

Occupational pensions are not regulated by law or governmental regulations *per se*. They are negotiated by the social partners and formulated in the binding collective agreement at confederation/inter-sectoral level. Occupational pensions are related to employment and funded entirely by the employer. In most cases the contribution consists of 4.5% of wages up to a ceiling of 7.5 times the statutory base income (435,750 SEK or €4,650 a year in 2015) and 30% of wages above this ceiling. The employer also pays a tax on contributions, based on its fees for social insurance, but lower (24.26% compared to 31.42%), since pensions do not give entitlement to social insurance.

2.2 Examples of occupational pension schemes

The following sub-chapters give further details regarding the two collectively-bargained occupational pension schemes for the private sector, the *LOAvtalspension SAF-LO* agreement for blue-collar workers, and the ITP for white-collar employees and professionals. These two agreements underpin the two most important schemes in the private sector and were negotiated between the key stakeholders (interviewed as a part of this chapter).

The *LOAvtalspension SAF-LO* agreement for blue-collar workers

In this agreement, an occupational pension is earned between the ages of 25 and 65. The employer pays the premiums, amounting to 4.5% of the salary, to the non-profit service company Fora, owned in equal parts by SN and LO, which levies a charge of 1.5% of the premiums collected. The premium paid is 4.5% of salary up to a ceiling of

7.5 times the base income. For any portion of a salary exceeding the ceiling, the premium is 30%.

The company administers occupational pensions for 210,000 companies employing 2.9 million workers. It is a DC-scheme and assets are invested by a number of insurance companies, funds and foundations. For traditional insurance, an employee can choose between three different companies (*Alecta*, *AMF* and *Folksam Liv*), while for unit-linked insurance they can choose between around ten different fund-managing companies, insurance companies or banks³.

The retirement age is generally 65 but it is possible for the employee to draw the pension earlier, from the age of 55, or later, in agreement with the employer. From the age of 55, an employee can also choose to reduce his or her working hours and supplement lost income with the occupational pension up to the sum forfeited due to the shorter hours.

The ITP schemes for white-collar employees and professionals

Employers who are party to a collective agreement, either through membership of the Confederation of Swedish Enterprise, or through a contingent agreement with the PTK which represents TCO and SACO associations in the private sector, must offer the occupational pension ITP to all their salaried employees from the age of 25, as well as occupational group life insurance (TGL) from the age of 18. *Collectum*, a service company owned by SN and PTK, procures insurance options from other insurance companies, and the beneficiaries can choose from among these. The ITP plan was introduced in 1960 and has been confirmed in collective agreements since 1974. ITP offers two plans since being reformed in 2007. The new plan is called ITP 1, while the previous plan (ITP 2) is for employees who were born in 1978 or earlier, with some minor alterations.

ITP 1 is an occupational pension that covers salaried employees born in 1979 or later, and is a premium-based DC-scheme. The premium is set at 4.5% of salary, up to a ceiling of 7.5 times the statutory base income, and pension entitlements can be earned between the ages of 25 and 65 (or longer, if the employer and employee so agree). The individual can choose between four different companies for traditional pension insurance (*Alecta*, *Folksam*, *AMF*, *Skandia Liv*) and five different providers of unit-linked insurance (*AMF*, *Danica*, *SEB*, *SPP* and *Swedbank*). The default choice is *Alecta*.

The general rule is that employees born in 1978 or earlier are covered by *ITP 2*. However, if the company has applied for and been granted *ITP 1* for all salaried employees, then *ITP 1* can apply to everyone, regardless of age. *ITP 2* is a DB-scheme.

3. Unlike a traditional insurance scheme, unit linked insurance is a form combining insurance and an investment, where part of the premium is used as insurance while another part of the premium is used for investment in different investment schemes.

Pension benefits are calculated based on the wage before retirement and an average of commission and production bonus payments during the last three years before retirement. The maximum pension from ITP 2 is 10% of wage portions up to 7.5 times the statutory base income, 65% on wage portions between 7.5 and 20 times that amount, and 32.5% on wage portions between 20 and 30 times that amount. To get the maximum benefits the employee must have been covered by the scheme for at least 360 months after the age of 28 (i.e. 30 years). If total employment time is below this, the pension is reduced by 1/360 for each missing month. The retirement age is 65, although benefits can be drawn from the age of 55 with a deduction of approximately 0.6% for each earlier month taken. It is also possible to postpone drawing the pension up to the age of 70. An employee with ITP 2 also has ITPK, a complementary old age pension. The premium for this complementary defined-contribution scheme is equivalent to 2% of his salary.

2.3 Coverage, protection and outcomes

Occupational pensions can be paid at the age of 55 at the earliest, and for five years at least. Usually a higher amount is paid between 65 and 70, and a smaller amount for the rest of the person's life. The amount differs according to which agreement(s) is/are applicable. Occupational pensions are taxed as salary, together with the state pension.

Table 2 Breakdown of pension income, different sources, 65-69-year-olds, %

Year	First pillar		Second pillar		Third pillar	
	Public, men	Public, women	Occupational, men	Occupational, women	Private, men	Private, women
1996	74.4	80.6	20.3	15.6	5.3	3.8
2002	67.9	76.2	24.2	16.4	8.0	7.4
2006	64.0	72.1	27.7	19.0	8.1	8.9
2007	62.2	70.3	29.4	20.3	8.4	9.4
2009	54.5	62.0	29.6	21.6	15.9	16.4
2010	53.3	60.7	31.2	23.0	15.5	16.3

Source: Pensionsåldersutredningen, S 2011: 05, Table 2: 13.

Occupational pension schemes, as well as individual savings in the third pillar of the pension system, have become more important for retirement over the last decades, a direct result of the pension agreements at the end of the millennium. Table 2 above shows the breakdown of income from different sources for retired persons between the ages of 65 to 69 in different years. The share of income from the state pension has dropped significantly for the newly retired since the end of the 1990s. In 1996, occupational pensions as a share of total pensions for people aged 65-69 accounted for 20.3% for men and 15.6% for women, while 15 years later this had increased to 31.2%

for men and 23% for women⁴. While state pension levels have started to decrease, contributions paid to occupational schemes have increased. For example, in 2008 SN and LO reached an agreement to increase contributions from 3.5 to 4.5%.

Furthermore, the occupational pension is more important for individuals with a higher income, as the premium paid to the fund is often considerably higher for that portion of income above 7.5 times the statutory base income. The age of retirement is also of importance, especially for individuals with mid-level or high incomes. Persons with a low income (see comments to Table 3 for definitions) born in 1949 can increase their net income by around 5% if they keep on working after the age of 65, regardless of occupational pension scheme or age of final retirement. Mid- and high-income earners could increase their net income by between 13% and almost 50% with a few extra years of work. (*Pensionsåldersutredningen*, S 2011:05).

As the occupational pension becomes more important as a source of income, differences between schemes can create distributional effects. Differences in pension incomes have increased, but this has more to do with the levels of earned income than the pension schemes *per se*. While for example the *LOAvtalspension SAF-LO* agreement on pensions for workers and the ITP 1 for salaried employees and professionals in the private sector are not identical, they share the same basic characteristics. According to the interviews conducted for this research project at SN, the premium-based complementary ITPK-scheme served as a model for the development of the ITP 1, and during the interview the LO representative referred to the current 2008 *LOAvtalspension SAF-LO* agreement as a ‘copy/paste’ of ITP 1⁵. This was something that SN, when interviewed, stated that they approved of, as they strive for similar or identical agreements for all their employees⁶. The differences between occupational groups in future pensions have possibly decreased because of this agreement, as the contribution for the *LOAvtalspension SAF-LO* agreement was increased from 3.5 to 4.5% of wages, thus ending up at the same level as for ITP 1.

Table 3 presents the importance of occupational pensions as a percentage of gross income for individuals born in 1949 and retiring in different years. It shows different occupational pension agreements, and persons affected by both the old and new public statutory pension system. The occupational pension agreements are more important, in terms of gross retirement income, for high-income earners in most occupations. Workers in the private sector (*Avtalspension SAF-LO*) do not benefit as much as others from their occupational pension and this is particularly the case for high-income earners. These differences depend to a significant extent on which year the individual was born. The *LOAvtalspension SAF-LO* was aligned with the ITP 1 agreement in 2008, and the contributions for employees on higher incomes were correspondingly changed.

4. A suggested rule of thumb at the time of the reform was that the net replacement rate would be 75% of wages, of which 15-20% would come from occupational pension benefits. Later calculations, such as those in the OECD's *Pensions at a Glance* (2013), tend to show a picture where the net replacement rate from both public and occupational pensions for individuals on a medium income will be closer to, or even below, 60%.

5. Renée Andersson, LO, occupational pensions, interviewed 25/11/2015.

6. Hans Gidhagen, SN, occupational pensions, interviewed 2/12/2015.

Contributions for portions of income over 7.5 times the statutory base income, not subject to contributions to the state pension, thus increased in steps from 6% in 2008 to 30% in 2012, on a par with the levels in the ITP 1 agreement. (Svenskt Näringsliv 2016) The currently low replacement rates for workers covered by *LOAvtalspension SAF-LO* are therefore increasing over time.

Table 3 Occupational pensions as a percentage of total gross retirement income at 61, 65 or 70 years of age. Low-, median and high-income earners born in 1949

	ITP2	PA 03	Avtalspension SAF-LO	KAP-KL
Age on retirement	Low income			
61	25	24	12	21
65	21	19	10	16
70	21	19	11	18
	Median income			
61	22	20	12	19
65	21	19	12	18
70	19	16	11	16
	High income			
61	50	50	18	45
65	48	47	17	45
70	43	40	17	44

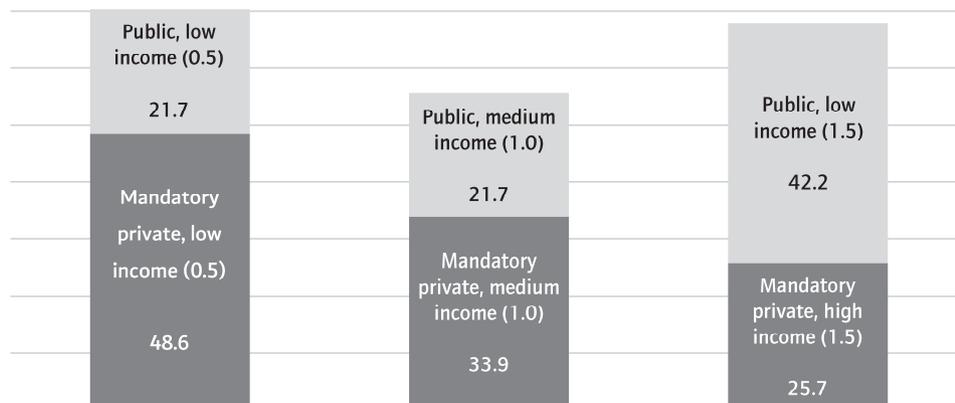
Source: *Pensionsåldersutredningen*, S 2011:05, Table 8: 37.

Comments: low income means individuals with income in the 25th percentile of the income distribution (around SEK 200,000 a year at the age of 60), median income at the 50th (around SEK 300,000), and high at the 90th (SEK 600,000).

The contribution level for portions of incomes above 7.5 times the statutory base income is an aspect of both the *LOAvtalspension SAF-LO* and ITP that some stakeholders, particularly *LO*, find somewhat problematic⁷. The purpose of the higher contribution is to compensate for the fact that the state pension system does not cover portions of income above this level. However, the current solutions within the occupational pension schemes overcompensate for this, giving high-income earners, mostly *Saco* and *TCO* members but also (at least in time) some *LO* members, a higher replacement rate than middle-income earners. This is illustrated in Figure 1, which shows the gross replacement rates for low-, medium-, and high-income earners. This U-shaped replacement rate is quite unique to the Swedish case.

7. Renée Andersson, *LO*, occupational pensions, interviewed 25/11/2015.

Figure 1 Predicted gross replacement rate for low-, medium- and high-income earners



Source: OECD (2013).

One factor that will contribute to more significant differences between future retirees is that the shift from defined benefits to defined contributions is implemented differently by the various occupational pension agreements. For private-sector workers covered by the *Avtalspension SAF-LO* agreement, defined benefits were discontinued in 1995, with transitional rules for individuals born in 1935-1967. For white-collar employees in the private sector, individuals born in 1978 or earlier gain occupational pensions based on defined benefits in the ITP 2 scheme, while younger employees will receive benefits in accordance with defined contributions.

2.4 Summary of the occupational pension situation

In summary, occupational pension schemes cover almost the entire labour market, with 90% of employees covered by collective agreements relating to such schemes. Most employees are covered by four central pension agreements, which establish similar, but not identical, levels of contributions, usually in the form of 4.5% of wages or salaries paid to a service company by the employer. One element that stands out is that several of the current schemes also determine additional pension contributions for portion of wages exceeding 7.5 times the statutory base income, which are expected to provide higher replacement rates to individuals with high incomes in the future. Several of the agreements are more beneficial for persons on higher incomes. The contributions are higher (30% on portions of salaries exceeding 7.5 times the statutory base income) than state pension contributions (18.5% on the portion of income up to 7.5 times the statutory base income, plus the occupational pension contributions for incomes for this income range, 4.5%, making a total of 23%).

While occupational pension schemes have existed for a long time, they have become essential for the future pensions of employees since the late 1990s due to the reforms in the state pension system, which made the second and third pillars, as well as

individual choices, more important. At about the same time most occupational pensions shifted from DB to DC, as did state pensions. However, some employees, particularly older ones, in white-collar or professional occupations have occupational pensions that still include DB elements. For example, while there are some differences between the *LOAvtalspension SAF-LO* scheme for blue-collar workers in the private sector and the ITP schemes for white-collar employees, the most significant difference is between older and younger individuals in the ITP schemes, as ITP 1 for younger employees is a DC-system while ITP 2 for older employees (born 1978 or earlier) is a DB-system. Whether a DC- or DB-system is most beneficial for the individual in the long run can only be judged in hindsight. It could be argued that the risks for older white-collar employees in the private sector, together with some employees in the public sector with PAO3, are lower than for blue-collar workers in both the public and private sector.

3. Occupational unemployment-related schemes: an upgraded role due to welfare state retrenchment

This section covers additional income insurance schemes based on trade union membership, the role of Employment Transitional Agreements between the social partners as well as the Ghent-based unemployment insurance. Of these the latter is most important for unemployment protection. However, it is debatable whether unemployment insurance is a form of Occupational Welfare as defined in this book. While the unemployment insurance benefits are administered by funds set up by trade unions, most of the regulations, such as those on eligibility and replacement rates, are decided on by parliament.

3.1 Institutional traits

Most employees in Sweden are covered by an income-based unemployment insurance scheme organised in accordance with the Ghent model. This means that the unemployment insurance system is based on voluntary membership of unemployment insurance regimes subsidised by state funds. The trade union unemployment insurance funds were first supported by the government in 1935, and these funds are now to a significant degree regulated by legislation when it comes to issues concerning eligibility and levels of income protection. The present unemployment insurance system is regulated by the *Unemployment Insurance Act*, and the *Regulation on unemployment insurance funds*. The 28 unemployment insurance funds are legally organised as business associations administered by the social partners and supervised by the *Swedish Unemployment Insurance Board*, IAF (*Inspektionen för arbetslöshetsförsäkringen*), a public authority subject to the Swedish government. The unemployment fund board is responsible for fund organisation and management of its affairs, and is elected at a meeting of the general association, the fund's highest decision-making body. The board's decisions are implemented by a cash manager,

responsible for the fund's day-to-day administration, in line with the guidelines and instructions provided by the board.

Initially the trade unions were sceptical about the idea of establishing funds, because of the strict formal regulations required and the governmental influence, but gradually an increasing number of funds were established, at the most 69 in 1998. Since then many funds have merged, and the total number is now 28, each covering persons in a particular profession or industry, or in related industries, with approx. 3.5 million members.

While the Ghent-based unemployment insurance is the primary insurance in relation to income protection in case of unemployment, most employees – around 90% of the labour force – also have additional protection through collective agreements not regulated by the state. These agreements top up statutory benefits in case of unemployment, sickness, work-related accidents, early retirement and/or during parental leave. In 2005, payouts from such supplementary insurance schemes amounted to 16% of payouts from the social insurance unemployment system and are highest in cases of sickness or work-related accidents (Olofsson 2015).

Supplementary unemployment insurance is sometimes funded directly by voluntary payments by members (a worker may decide whether or not to pay) or is included in the union membership fee (thus the worker is automatically insured when she/he pays trade union fees). This is a unilateral form of Occupational Welfare that does not include employers. As a union becomes a large customer of any insurance company selling such insurance, it can acquire its insurance at a better rate than any individual could. However, unions representing employees in sectors and occupations where the risk of unemployment is considered high have had problems in achieving favourable deals. As a result of this, the largest union for private-sector workers, *IF Metall*, failed in its efforts to offer its members any additional income insurance. During the 2008 crisis, the same fate befell the union for construction workers, *Byggnads*, which no longer thought it could afford supplementary insurance for its members. On the other hand, *Handels*, the retail workers' union, does have supplementary income insurance for those who have been members of both the union and its unemployment fund for the last 12 months⁸.

While the cases above refer to the automatic inclusion of union members in supplementary schemes, in other cases unions offer their members voluntary income insurance, buying it from private insurance companies. 54% of members in LO unions (blue-collar workers) have the option to pay for such additional insurance. While this is a high level of coverage in comparison to other countries, it is low compared to the 81% coverage in TCO unions (white-collar workers) and 94% in SACO-unions (professionals). The number of unemployed people receiving unemployment benefits

8. Due to this, LO, according to the interviews conducted for this project, would prefer broader solutions to spread the risk and reduce the levels of inequality between different sectors and occupations. For this reason, it applauded the current government's decision to increase the cap on ordinary unemployment insurance in September 2015. Ulrika Vedin, LO, unemployment protection and prevention, interviewed 25/11/2015.

and additional pay-outs from such insurance schemes differs but is comparatively low. In 2011 it was 7% of unemployed members of LO funds, 13% of AEA, the unemployment insurance fund for professionals and academics, and 27% of members of TCO funds (TCO 2014).

Employment Transitional Agreements are another form of occupational unemployment protection. These agreements include both extra benefits, in the form of better income insurance compared to unemployment insurance, and services, in the form of assistance in regaining employment. Today almost all employees are covered by an Employment Transitional Agreement, as these are part of collective agreements: they thus cover around 80% of white-collar employees and 90% of blue-collar workers in the private sector and 100% of public sector staff. The benefits and services vary however from one agreement to the next. Furthermore, in many cases the benefits from these agreements can only be granted to employees of a certain age, who have been with an employer for a certain number of years, and held permanent employment before redundancy. Similar to occupational pension schemes, most employees are covered by four different agreements, covering blue-collar workers in the private sector (LO and SN), white-collar workers and professionals in the private sector (TCO, SACO and SN), municipal and county council employees, and state employees (Olofsson 2015).

Compared to the unemployment insurance funds, Employment Transitional Agreements are of a later date, most of them dating from the 1970s or thereafter but with an increased role and scope since the crisis of the 1990s. They are also, unlike the Ghent system of unemployment insurance, the result of bipartite agreements between the social partners (Edström and Sabel 2005; Ottosson and Bäckström 2006; Bäckström 2006; Bergström and Diedrich 2008). Both the origins and the proliferation of these agreements are linked to the development of the Swedish employment agency and its active labour market policies. The first transition fund was established in 1972 as a reaction to increased unemployment amongst public-sector white-collar employees. There was a perception at the time that the public employment agency and its active labour market policies were aimed at blue-collar workers and did not cater for the needs of unemployed white-collar employees, and the first transitional employment fund was a way to remedy this. This pattern was repeated during the crisis of the early 1990s, when layoffs and redundancies became commonplace and unemployment figures rose to levels unheard of since the 1930s. Even more funds and foundations were established in the 2000s, with TSL for private-sector workers set up in 2004 and Omställningsfonden for employees in the healthcare sector in 2012. The last two agreements almost tripled the number of employees covered (SOU 2002: 59, Walter 2015).

As in most other areas, a few large agreements and schemes established by key social partners and administered by bipartite collaborations cover a significant share of all employees. *TRR Trygghetsrådet*, an agreement between the Confederation of Employers and the PTK dating from 1974, covers around 850,000 employees, while *Trygghetsfonden TSL*, created through an agreement between LO and Svenskt Näringsliv, covers 900,000 workers. The largest agreement is *Omställningsfonden*

KOM-KL, for private and public employees in for example health and care services, which covers 1.1 million employees. Table 4 lists the largest Employment Transitional Agreement foundations.

Table 4 Largest foundations for Employment transitional agreements

Foundation	Social partners	Employees covered	Recipients in 2014
TRR Trygghetsrådet	SN, PTK	850,000	15,308
Omställningsfonden	OFr, SKL, Pacta	1,100,000	c. 1,000
Trygghetsfonden TSL	SN, LO	900,000	c. 22,000

Source: TCO (2015).

Employment transition schemes are funded by wage deductions on the basis of collective agreements. For most of them, including the largest three, TRR Trygghetsrådet, Omställningsfonden and Trygghetsfonden TSL, the sum that an employer pays to the employment transitional schemes is equal to 0.3% of payroll. The funds are administrated by bipartite non-profit foundations. For example, *TRR Trygghetsrådet* has a staff of 250 in 40 offices in different parts of the country. Trygghetsfonden TSL is run differently. It only has a small staff to administer the fund, while the employment transition services are handled by a number of private companies from which the unemployed can choose (Walter 2015). As the schemes are administered by foundations, they are exempt from taxation in accordance with the Income Tax Law (*inkomstskattelagen*, IL).

3.2 Examples of Employment Transitional Agreements

TRR Trygghetsrådet

TRR Trygghetsrådet is a foundation, founded in 1974, that offers assistance to redundant white-collar employees and professionals in the private sector. It is owned jointly by SN and the trade unions in PTK. A number of blue-collar workers are also covered through special agreements with a number of state-owned or -controlled companies, such as Postnord (Postal services), Telia (a telecom) and Vattenfall (energy company). Through agreements, the foundation covers 850,000 employees employed in 32,000 companies, either members of SN or which have signed an associative agreement with a PTK union. Member employers pay a fee of 0.3% of the company's payroll. Companies that are not members of SN pay a fee of 0.7%. It is possible for companies and unions to waive the agreement at local level. In that case the fees are reduced to 0.18% (0.58 for affiliated non-member companies). The assistance provided by TRR in line with the collective agreements is twofold: to promote transition to other work, or possibly self-employment, and to provide additional financial support in case of dismissal.

Transitional support is provided by TRR Trygghetsrådet and consists of personal advice and assistance in finding a new job, taking part in training programmes, or starting a business. To gain access to this support, the individual should have been

employed for at least one year and have worked at least 16 hours per week at a company paying fees to TRR.

Financial support, in the form of severance pay (*avgångsersättning*, or AGE for short), is paid to employees made redundant who are over the age of 40 and have worked for a company whose employees have been covered by the TRR agreement for at least five years. AGE tops up income insurance benefits to 70% of prior gross income, where this is above the cap on benefits from the unemployment insurance fund, for the first 6 months. If the individual is between the ages of 45 and 59, the agreement guarantees at least 50% of previous wages for a further six months, and for individuals aged 60-65 a further twelve months (Sjögren Lindquist and Wadensjö 2011b; Furåker 2015a).

Trygghetsfonden TSL

Trygghetsfonden TSL is a foundation created by a more recent agreement concluded between SN and LO in 2004. It covers 900,000 employees in 100,000 different companies. As with the TRR agreement, the foundation's funds are provided through fees from SN member companies as well as companies with collective agreements affiliated to LO. The fee is calculated as 0.3% of the company's payroll for SN members, 0.6% for companies with an affiliated collective agreement and 0.32% for companies that are members of any employee organisation other than SN.

The transitional support from TSL is considerably less generous than that provided by TRR. It offers the dismissed worker - if he has been employed for at least a year and worked a minimum of 16 hours per week - the possibility of a lump sum (SEK 22,000, roughly €2,200 to help him in finding another job. It also offers transitional programmes that include guidance, compiling an action plan and support in job hunting. Instead of *AGE*, dismissed employees covered by the *TSL* agreement, if they are at least 40 years old and have been employed for at least 50 months over the last five years, receive a severance payment known as *AGB (Försäkring om avgångsbidrag, Severance payment insurance)* from AFA. This is a lump sum of at least 32,825 SEK, with a further 1,400 for each year of age between 50 and 60, up to a maximum of SEK 49,250 (Sjögren Lindquist and Wadensjö 2011b, Furåker 2015a).

3.3 Coverage, access and replacement rates

The coverage, access and replacement rates of the additional forms of unemployment insurance provided by unions or through collective agreements varies between sectors and occupational groups. While access to and compensation from the unemployment insurance funds within the Ghent system are equal for all under 65 years of age, regardless of employment contract, occupational group or gender (though fees differ),

access to supplementary benefits varies⁹. In the rest of this section we will focus on the additional employment insurance schemes that are not part of the Ghent system¹⁰.

For instance, in the automotive and retail sectors, there are differences between the benefits provided by the unions. Workers within the automotive sector, represented by IF Metall, do not have schemes, apart from the AGB paid under the bilateral agreement with SN in TSL. The *Handels* union, for retail workers, on the other hand, does. Its supplementary income insurance tops up benefits to an 80% replacement rate, and since the beginning of 2016 there is no cap on this replacement rate. Previously, the cap for the supplementary unemployment benefit was 35,000 SEK a month for the first 100 working days, or roughly five months, of unemployment. The insurance for white-collar workers in the private sector who are members of *Unionen* results in an 80% replacement rate for incomes up to 60,000 SEK a month for the first 150 days, or roughly 7 months, of unemployment. Overall the unions that do have supplementary income insurance for their members, 39 in all, provide between 100 and 200 days of top-up unemployment benefit.

Different rules also apply to access to supplementary unemployment insurance and to employment transitional schemes. The following example is from Unionen, the largest union for white-collar workers in the private sector, with 600,000 members. To collect the supplementary unemployment benefit, the person has to have been a member of the union for the last 12 months as well as being a member of the unemployment insurance fund (union membership is separate from membership of an unemployment insurance fund). They must also have worked at least 80 hours per month for 12 months during the last 18 months prior to unemployment, be receiving unemployment benefit and be under the age of 65.

As a result of these different agreements for different unions, some of which do not even offer supplementary unemployment income insurance, as well as strict access criteria, the percentage of the unemployed benefiting from such schemes differs significantly between different groups and is quite low. In 2011 the percentage of unemployed people receiving such additional benefits varied, from around 7% of unemployed workers belonging to an LO-affiliated unemployment insurance fund, to 27% of unemployed white-collar workers belonging to a TCO-affiliated fund. Another issue of some importance is whether an individual needs to personally apply for supplementary benefits or whether this is handled through the (former) employer reporting to the Transitional foundation. As not everyone is aware of these agreements, it has been argued that schemes in which individuals have to personally apply are disadvantageous to people unaware or uninformed of their entitlements.

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9. To gain access to the Ghent system, the applicant has to have been a paying member of the unemployment insurance fund for twelve months or more, and have worked an average of 80 hours/month for the last twelve months. A common requirement is also to be registered as unemployed and to be actively seeking work at the Swedish Public Employment Service (see institutional traits above).
 10. It should however be noted that a common trait of additional benefits from collective social partner agreements not regulated by the state is that they also have the same conditions for access as unemployment insurance, making them by definition into supplementary schemes.

This is the case for employees in the private sector, while such issues are handled automatically in the public sector.

3.4 Recent trends in unemployment protection

The main form of unemployment protection in Sweden is the Ghent-based unemployment insurance. While the funds are administrated by social partner representatives, the rules governing these insurance schemes, for example the replacement rate, are decided by the government. However, the social partners have themselves added supplementary benefits. These take the form of supplementary income protection to top up benefits above the cap on benefits in the Ghent system, as well as schemes to support the unemployed in finding new employment through matching and re-training. These forms of supplementary protection can be seen as a response to declining income protection in the Ghent-based unemployment insurance and a result of the reduction in government resources allocated to active labour market policies over the last two decades.

Access to Ghent-based unemployment benefits has decreased dramatically since 2007, due to political reforms in the unemployment insurance regime. There were almost twice as many outside the unemployment insurance system in 2014 as in 2006. Furthermore, as state regulation has made unemployment insurance less generous, and criticism of the lack of successful active labour market policies has risen, the social partners have seen an increased need for collective agreements¹¹. In parallel to the reduction in unemployment insurance coverage, many unions have started to offer their members further unemployment income insurance over and above the state-supported unemployment insurance scheme. Some unions have been able to do so more than others, as the costs involved can vary significantly and depend on the unemployment risks faced by their members.

A similar argument could apply to the Employment Transitional Agreements concluded between the social partners. The fees paid by employers are quite similar but the number of potential recipients is not. For unemployed people covered by the agreement in sectors and occupations where the risk of unemployment is low, the foundations have the resources to give significant support and help with matching, essentially working as a premium employment agency for labour market insiders. For workers in the private sector, the service benefits are hardly the same, as the foundations have fewer resources per recipient. This is the case for industrial workers, many of whom tend to be made redundant at the same time¹².

11. Ulrika Vedin, LO, unemployment protection and prevention, interviewed 25/11/2015; Pär Andersson, SN, unemployment protection and prevention, interviewed 2/12/2015; Ann Lundberg Westermarck, unemployment protection and prevention, interviewed 15/12/2015.

12. During the financial crisis of 2008/2009, the Swedish partners agreed on various measures to reduce working time during economic crises. This was a new phenomenon in post -1945 Sweden and could be seen as the only solution when neither the public employment agency nor the transitional foundations have the capacity to handle the situation. This chapter has not however focused on working time reduction.

Conclusions

This section draws some conclusions and provides evidence of the social partners' point of view on the future prospects for Occupational Welfare.

Sweden still has a universal welfare system. Many provisions have also traditionally been linked to labour market participation and income. The state welfare system has reproduced the income differences on the labour market by linking benefits to prior income, but at the same time has redistributed resources due to a system of minimum and maximum benefits. Occupational Welfare in the areas of pensions and unemployment protection and prevention plays a supplementary role, topping up the state-provided welfare schemes. Most Occupational Welfare schemes therefore complement an existing state welfare scheme covering all citizens and employees.

Due to welfare state retrenchment since the crisis of the 1990s, and the resulting increased and more pronounced role for Occupational Welfare, the redistribution effects have declined and the differences between insiders and outsiders have increased. The policies of the right-wing government (2006-2014), as well as the pressure on the state welfare system and the low cap on the Ghent-based unemployment insurance system during the last decade, have led to an increased importance of various Occupational Welfare solutions agreed between the social partners. For example, TCO, the confederation for white-collar employees, argues that Employment Transitional Agreements and AGE have become more important due to the lack of active labour market policies and income protection catering for the needs of white-collar employees. This conclusion is corroborated by both the interviews and the reviewed literature (TCO 2014, see also Davidsson and Marx 2013, Davidsson and Emmenegger 2013).

The social partners are well organised and centralised, although wage bargaining takes place at a less centralised level than before. A limited number of organisations cover most of the labour market. In the welfare areas under scrutiny, most agreements are made between a handful of organisations: SN for private-sector employers, Arbetsgivarverket and SKL for most public-sector employers and LO, TCO and Saco for almost all employees (in the private sector TCO and Saco act together through the PTK). Unlike many other countries, welfare state retrenchment has thus led to a more active role for the social partners, who have developed several large schemes covering most employees. These schemes resemble each other, meaning that the levels of inequality in access and provision of these Occupational Welfare schemes are less than they would have been if they had been developed in another fashion. However, although Occupational Welfare schemes now, overall, have increased resources and provide coverage for most wage earners, they are not as universal or as beneficial, in relative terms, as public welfare before the economic crisis of the 1990s. Furthermore, the differences between insiders and outsiders have started to increase. White-collar employees and professionals with permanent employment contracts and high incomes are in most cases provided with better occupational pension schemes and more supplementary unemployment protection than others.

Occupational pensions amount to 20% or more of total pension income. They are especially important for high-income earners, whose replacement rate from the public pension system is limited due to a cap in contributions in the current public NDC scheme. While occupational pension schemes have a long history in Sweden, their role has increased as a result of a significant pension reform implemented at the beginning of the millennium. The previous state DB-system, ATP, was not considered sustainable, a fact that was acknowledged by the key stakeholders. With the new system came a distinctive shift from DB to DC in both state and occupational pensions. As future benefits from the new public pension system would be significantly lower, the second and third pillar needed to provide additional support. Due to the high level of centralisation of both employee and employer organisations in Sweden, most employees are covered by one of just four different occupational pension schemes. The pension benefits for wage earners in Sweden are quite similar regardless of which sector a person works in or of his or her occupation, and contributions have increased. Yet, occupational provisions do not benefit all employees the same way. The current mix of schemes is highly beneficial for high-income earners. But the same mix may give many low-income workers a less secure retirement. It is still unclear whether these increases in occupational pension contributions, together with the new public pensions scheme, will result in the replacement rates envisioned at the time of the reform. All depends on their rate of return.

While state pensions for Swedish employees have declined less than in other countries, the risks involved are a debated issue. According to interviews performed with stakeholders, SN is generally happy with the level of marketisation of occupational pensions and the pension system overall, and would like to see even more possible choices for the employee¹³. While the predominance of DC over DB means that individuals bear most of the risks, this does not mean that SN finds the end results unimportant. If the current system does not deliver, they fear that LO and PTK and their members will demand higher premiums in their occupational pension agreements. The PTK representatives are somewhat more concerned about the marketisation risks of pension funds, the importance of not putting all one's eggs in one basket and the need for individuals to receive clear information¹⁴. LO representatives are more sceptical, pointing out that the current three-pillar system tends to increase gender and outsider differences in total pension income, benefiting men with stable employment conditions more than the previous system. They would prefer a stronger public pension system that also caters for groups with recurrent spells of unemployment during their working lives, or who are unable to work until 65 or longer¹⁵.

In the field of unemployment protection and prevention the picture is fragmented. Income protection has declined, as the former government did not increase the cap on benefits for several years during the 2000s. Unions started to look for alternatives, setting up unilateral complementary unemployment insurance funds through the

13. Hans Gidhagen, SN, occupational pensions, interviewed 2/12/2015.

14. Tomas Bern, PTK, occupational pensions, interviewed 15/12/2015.

15. Renée Andersson, LO, occupational pensions, interviewed 25/11/2015.

intermediary of insurance companies. However, not all unions have managed to find solutions that they feel they can afford. This has especially been the case for those unions representing workers at the highest risk of unemployment. The raising of the cap of the Ghent-based unemployment insurance in 2015 was considered an important reform according to our interviewees at LO, who thought that the unemployment scheme was slowly but surely becoming essentially a scheme providing a flat-rate benefit that had to be supplemented by other means. Alternative solutions, using Occupational Welfare schemes, are considered by LO to be a second-best solution. Without a general system similar for all, alternative solutions tend to favour white-collar employees and be less beneficial for low-income workers or groups of employees at a higher risk of unemployment due to sectoral or business cycle-related insecurities. LO supports stronger state unemployment insurance, giving paramount importance to income replacement, and generally favours government-sponsored solutions or systems with a wide coverage¹⁶.

As shown above, within the area of unemployment protection there is one form of bilateral solution that is quite unique compared to other countries. The Swedish employers and the unions have made central agreements entitling workers to benefits during unemployment called Employment Transitional Agreements. These rights consist of both cash payments and various individual matching support measures. While the deteriorating rates of the quasi-statutory unemployment insurance are one part of the story, the apparent failure and dismantling of active labour market policies constitute another, important factor.

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Appendix: interviews conducted with key stakeholders

- Renée Andersson, LO, occupational pensions, interviewed 25/11/2015.
- Ulrika Vedin, LO, unemployment protection and prevention, interviewed 25/11/2015.
- Hans Gidhagen, SN, occupational pensions, interviewed 2/12/2015.
- Pär Andersson, SN, unemployment protection and prevention, interviewed 2/12/2015.
- Tomas Bern, PTK, occupational pensions, interviewed 15/12/2015.
- Ann Lundberg Westermark, unemployment protection and prevention, interviewed 15/12/2015.