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Privatizing unemployment protection

- The rise of private unemployment insurance in Denmark and Sweden

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Abstract:

Since the early 1990s a series of reforms have jeopardized the universal and inclusive character of the unemployment insurance in Denmark and Sweden yet disagreement persist on to what extent this development signal transformative change or continuity. An issue that have received scant attention in this regard is the development of privately organised unemployment insurances in both countries during the 2000s. This thesis takes the first step in remedying this neglect by analysing the differential growth of private unemployment insurance in Denmark and Sweden.

The thesis first discuss the problems associated with the private supply of unemployment insurances and then highlight the potential benefits of approaching the issue from a welfare mix perspective by specifying the conditions under which private provision can serve as a supplement to the public unemployment insurance. Drawing upon the concept of risk-privatization the thesis then introduces a framework for analysing changes in the management of social risks in order to explicate the different dimensions of change relevant to the assessment of changes in the welfare mix.

The analysis first document the gradual change towards a basic security model of unemployment protection in both Denmark and Sweden and then compare the diverging responses to this development. Through the analysis of differences in the structure and coverage of private provision in the two countries it is argued the comprehensive and inclusive character of private provision established in the Swedish case have not only made private supplementary schemes more equitable, but also both possible and viable, which contradicts with the Danish case where private schemes remains highly actuarial, more fragmented and limited in scope.

This 'paradox of privatization' both confirm the inherent problems of private provision based on actuarial principles as well as highlight how types of private schemes address some of the key obstacles to private provision. In line with recent contributions on the role of trade unions in mitigating retrenchment of public policies this conclusion highlight the central role of strong collective intermediaries in shaping both private provision and processes of risk-privatization.

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Chapter 1: Introduction

1.0 Privatizing unemployment protection

The Danish and Swedish systems of unemployment protection have long been considered among the most generous across welfare states (e.g. Scruggs and Allan, 2006; Scruggs, 2006). Since the early 1990s a series of reforms have jeopardized this status, yet disagreement persist on to what extent this development signal transformative change or continuity (Davidsson, 2011; Sjöberg, 2011; Andersen, 2011a, 2012; Obinger et al., 2012). A neglected issue in the various interpretations of recent policy trends has been the rise of privately organised unemployment insurances to supplement the public insurance in both countries.

In response to the declining economic compensation offered in the public insurance as well as dwindling membership rates (Lind, 2009; Kjellberg, 2009, 2011), otherwise supported by the so called Ghent-system of voluntary and state subsidised unemployment insurance found in both countries (Rothstein, 1992; Western, 1993, 1994; Ebbinghaus and Visser, 1999; Blaschke, 2000; Scruggs, 2002), trade unions and associated unemployment funds began offering members supplements to the public unemployment insurance during the 2000s

The new private schemes provide members the opportunity to top-up the public insurance and are in general conditional upon trade union membership and membership of the related unemployment fund.

In Sweden the first 'income insurances' was introduced in 1998 (Ds, 1999: 60). Yet, the market for private supplementary insurance first took off when union-run group insurance schemes were commenced in 2002 and 2003 by two unions under the Confederation of Professional Associations (SACO) and one member of The Swedish Confederation of Professional Employees (TCO). By 2004 seven unions belonging to the three main confederations of Swedish Trade Union Confederation (LO), TCO and SACO had chosen to include supplementary unemployment insurance in the membership fee, whereas by the end of 2012 34 unions out of the 51 members under the three main confederations, LO, TCO and SACO, had introduced such schemes for their members. As a consequence more than 1.8 million out of 2.7 million active union members were covered by a supplementary insurance provided by their respective trade unions by the end of 2012, which imply that some 37% of the Swedish workforce and 53% of unemployment fund members now have access to additional income protection in the event of unemployment.

The spread of private insurances have been far less dramatic in Denmark, where private insurances were already introduced in 1986 by the unemployment fund associated with the business professionals (*Civiløkonomernes A-kasse*). Supplementary insurances first started to spread from 2003 and onwards when most unemployment funds started offering them. By 2006 more than 80.000 had signed up for a so called 'wage insurance', corresponding to around 3% of the workforce. The number of insured remained relatively stable until 2011, yet after the introduction of the first larger collective insurance scheme the number of persons covered by either individual or collective supplementary insurance rose to more than 126.000 insured in 2012.

An important explanation for this divergence stems from how the new private schemes are organised. After lobbying for improving the public unemployment insurance scheme during the Social Democratic governments during the 1990s and early 2000s white-collar unions decided to include additional economic coverage in the union's membership fee beginning in 2001-2002. The spread of private schemes further took off in 2007 when LO reluctantly gave member unions the option of establishing group insurance schemes in the wake of benefit cuts introduced by the newly elected Centre-Right coalition.

Consequently, the vast majority of insured are now covered through group insurances organised by unions, which have led to a marked increase in the coverage ratio. The tax subsidisation of both premiums and disbursements until 2007 have further made group insurances an attractive supplement relative to both individual unemployment insurances as well as the public insurance.

In Denmark the role of private supplementary insurance has been a recurrent theme in the debate on the 'modernisation' of unemployment protection since the mid-1980s. However, only after the introduction of competition between unemployment funds was introduced in 2003 did Danish unions reluctantly decide to provide members with the option of purchasing additional coverage through the associated unemployment funds on an individual basis. As a result of this strategy supplementary insurances in Denmark have become more fragmented and less widespread and so far only two smaller unions covering some 50.000 members have introduced types of collective schemes. Furthermore, private insurances in Denmark are not subject to the same preferential tax treatment relative to the public insurance as in the Swedish case. Combined with the fragmented and less developed market, this have made additional coverage a costly option for the growing share of employed, who risk large income declines in the event of unemployment.

1.1 Research questions and structure of analysis

Private unemployment insurances constitute a real privatisation of risks different from the formal type characterising the tax subsidised Ghent systems of voluntary unemployment insurance in Denmark and Sweden and the spread of these schemes runs counter to the widely held notion of unemployment as a risk deemed uninsurable by the private sector (Barr, 2001, 2012). However, aside from the descriptive work of Sjögren Lindquist and Wadensjö (2005, 2006, 2007, 2011) the increasing role of private insurances has largely been absent in recent contributions on changes to the systems of unemployment protection found in Denmark and Sweden (Clasen and Viebrock, 2008: 447; Andersen, 2008: 41; Kvist and Greve, 2011: 152; Sjöberg, 2011: 224; Davidsson, 2011: 155-156 all provides brief comments on the issue).

This thesis takes the first step in remedying this neglect by providing the first detailed study of how the new private layer of unemployment protection has developed in the two countries. The analysis centres on three questions. First, why have the spread of private unemployment insurances differed to such an extent in Denmark and Sweden? Secondly, considering the fact that private provision of unemployment insurance is ruled out as a theoretical impossibility, how come that a seemingly sustainable layer of private provision has developed in Sweden during the last decade? And lastly, what are the implications of this growing role of private insurances in providing protection against the risk of unemployment?

The analysis is organised as follows: the first section introduce the concept of the mixed economy of welfare and discuss its relevance in relation to Barr's (2001) theoretical argument concerning the non-feasibility of private unemployment insurance. The following section sets out the theoretical framework for analysing the process and result of changes in the welfare mix based on the concept of 'risk privatization' (Hacker, 2004. 2005). The next section addresses the methodological issues in relation to comparative research and issues related to data when analysing the private sphere of welfare. The first section of the analysis describes the gradual dismantlement of 'earnings-relatedness' in the public insurance and the derived change towards a system of basic security, which has served to crowd-in private alternatives. In continuation hereof the following chapter describes the new types of private unemployment insurances available in Sweden and Denmark and the politics surrounding the emergence of this new private layer of unemployment protection. The final section concludes on the findings and assesses the spread of private insurances in light of the ambiguous assessments concerning the direction and magnitude of change in the Danish and Swedish systems of unemployment protection.

Chapter 2: The welfare mix and unemployment insurance

2.0 Varieties of social policy

The concepts of the mixed economy of welfare and welfare pluralism and the related concept of the social division of welfare have been integral to the study of social policy ever since the pioneering contribution of Richard Titmuss (1958) which famously identified a trinity of welfare consisting of social, fiscal and occupational welfare. The basic proposition of this approach is that 'welfare' derives from a plurality of sources or are organised around distinct 'pillars' (Goodin and Rein, 2001), typically centred on the 'welfare triad' of state, market and family or the 'welfare diamond', which further includes civil society institutions such as non-profit or voluntary organisations (Esping-Andersen, 1999: 35-36). This section surveys the literature on the welfare mix in the study of social policy and discusses the provision of unemployment insurance in relation hereto.

Discussions concerning the concept of welfare pluralism often revolve around whether to use it in a descriptive or prescriptive manner (Beresford and Croft, 1983; Johnson, 1987: 55; Powell, 2007: 4). The descriptive use of the concept is centred on identifying the different modes of provision and the allocation of welfare tasks between sectors. Hatch and Mocroft (1983) sums up this approach by arguing that although 'the idea of a mixed economy of welfare is often associated with the privatisation of social services (…) the concept itself whilst identifying a plurality of modes of provision, is neutral with respect to any particular balance within this plurality' (Hatch and Mocroft, 1983: 2).

In contrast to this approach, the prescriptive use of the concept instead points to the capability of the different sectors in managing welfare provision. In the words of Johnson (1990) it is not a question of whether the family, market or third sector '*should* substitute for the state but whether they are *able* to do so without adverse consequences for welfare provision' (Johnson, 1990: 146 his emphasis). Thus, the guiding assumption underlining this reasoning is that the components of the welfare mix 'cannot simply be regarded as functionally equivalents' (Mishra, 1990: 110) and viewing the different welfare sources as mutually substitutable is therefore considered 'hazardous' (Esping-Andersen, 1999: 36).

In this latter category we find the work of Titmuss (1958), who was the first to examine the development of different spheres of social protection, what he termed the social division of welfare. The underlying idea of this approach was to look beyond conventional definitions of social policy, the so called 'Iceberg Phenomena of Social Welfare' (Titmuss, 1965: 16), and thereby illuminate the various other forms of welfare provision as well as their implications.

Although Titmuss early warned against the statist bias when analysing social policy the 'first generation' of welfare scholars nevertheless still tended to equate social welfare with state welfare (e.g. Wilensky and Lebaux, 1958; Cutright, 1965; Wilensky, 1975). A self-proclaimed 'second generation' of welfare research challenged this approach and instead directed attention to the interplay between private and public welfare provision (e.g. Stephens, 1979; Korpi, 1983; Myles, 1984; Esping-Andersen, 1985; Castles, 1985; Rein and Rainwater, 1986; Johnson, 1987; Gilbert and Moon, 1988). In addition to the renewed scholarly focus on the welfare mix, the growing role of private social benefits during the 1980s and 1990s further advanced the interest in different types of welfare provision (Shalev, 1996; Adema et al., 1996; Adema and Einerhand, 1998). A series of studies developed in continuation hereof with the interest in exposing the 'hidden welfare state' (Howard, 1997) or 'the shadow welfare state' (Gottschalk, 2000) as well as the 'subterranean' politics of private welfare schemes (Hacker, 2002).

The focus on the interactions between tax systems and public and private social benefits has further redirected the attention in comparative studies of 'welfare effort', which preoccupied the first generation of welfare scholars (Adema, 1999, 2001; Adema and Ladaique, 2005, 2009; Adema and Whiteford, 2010; Adema, Fron and Ladaique, 2011). Yet, despite the recent upsurge in studies of the welfare mix and despite the fact that welfare scholars has long recognised that social policy extends far beyond the welfare *state*, the welfare mix concept continues to be conceived as neglected in the study of social policy and welfare states (Hacker, 2006; Powell, 2007; Seeleib-Kaiser, 2008). This neglect is particularly prominent in relation to unemployment insurance.

2.1 The welfare mix and unemployment protection: The mirage of private unemployment insurance revisited

Unemployment insurance was among the first welfare programmes to be introduced and has thus traditionally been considered a cornerstone of modern welfare states (Flora and Heidenheimer, 1981) as well as a prerequisite for the existence and functioning of modern labour markets (Polanyi, 1944). Yet, despite its significant role, few researchers have been concerned with the public-private mix in regards to specific schemes of unemployment insurance. Instead authors writing from a welfare mix perspective have focused on the existence of policy instruments considered 'functionally equivalent' to publicly provided income security (e.g. Castles, 1985; Whiteside and Salais, 1998; Bonoli, 2003, 2007; Trampusch, 2007a, 2007b).

Important among these have been what Emmenegger (2009) define as 'regulatory social policy', which refer to types of labour market social policy instruments within the realm of industrial relations and labour law such as employment protection legislation, minimum wages and collective bargaining systems. The concept of flexicurity has developed from these insights to explicate the relationship between different channels of social protection as well as social and economic outcomes generated by these (Wilthagen and Tros, 2004; Wilthagen, 2005; Madsen, 2003, 2005, 2006; Viebrock and Clasen 2009).

An obvious reason for the lack of interest in alternatives to the publicly provided unemployment insurance are often asserted to derive from the simple fact that 'unlike other forms of insurance [unemployment insurance] has never been provided by the private sector' (Chiu and Karni, 1998: 806). Such sweeping statements however contradict with the fact that insurance against the risk of unemployment originated in the private sector (e.g. Heclo, 1974; Alber, 1981; Rappaport, 1992; Toft, 1995; Nørgaard, 1997). In his classic account on the development of modern social policies Heclo for instance states that 'the technique of insuring against unemployment was invented by private and municipal experimentation throughout Europe' (1974: 65-66) and originated from 'the responses of diverse workers' associations to the needs of their members' (ibid.: 68).

This was also the case in Denmark and Sweden where the current unemployment insurance developed from a patchwork of private and semi-public schemes (e.g. Rothstein, 1992; Nørgaard, 1997; Carroll, 1999, 2005; Jensen, 2007a). In contrast to Denmark, who was among the first European countries to introduce public insurance, Sweden retained this way of organising support for the unemployed until 1934 and was thus among the last of the developed countries to introduce a public scheme (Pierson, 2006: 110). Despite the difference in timing both countries eventually settled on the same model for organising public insurance by introducing public subsidies to privately administered unemployment funds, the so called Ghent-model. The 'help to self-help' principle and formal privatization of risks underpinning this model represents a liberal legacy in the social protection systems of both countries. However, a series of reforms in the late 1960s and early 1970s 'universalised' the model by easing qualification requirements, raising compensation and coverage rates and lowering member financing (Goul Andersen, 2012a).

Yet, despite the fact that private organisations fostered unemployment insurance and have retained an important role in administering these schemes, especially in the Ghent-countries, the role of private actors in the provision of unemployment insurance has generally been limited in the history of modern welfare states. The reason for this absence comes in two versions and revolves around a key question in the welfare mix literature; is the market and private actors capable of providing insurance against the risk of unemployment?

At base the answer to this question derives from how the risk of unemployment is conceived. According to Beenstock and Brasse (1986) the risk of unemployment is no different from other types of risks covered by the market and as a consequence 'the supply of unemployment insurance should be left to the private sector and the insurance industry' (ibid.: 98). As a corollary of this argument the absence of private markets for unemployment insurance is explained with reference to how the existence of generous and encompassing public schemes has crowded-out private provision.

Supporting this argument is Rappaports (1992) historical study of the American case, arguing that 'a review of the history of employment security arrangements prior to the establishment of government UI reveals no evidence that unemployment was uninsurable' (1992: 62). In line with the crowding out thesis he contends that 'had private UI been given the chance to emerge, evidence also suggests it might have prospered' (ibid. 72). According to Rappaport the case for private unemployment insurance is even stronger today. As insurance has become more extensive, varied and sophisticated since the 1930s and as both unemployment patterns are better understood and unemployment rates displays much more stability than in the pre-war era, these factors suggest that the feasibility of private unemployment insurance has only grown over time (ibid.: 78).

The theoretical argument of Barr (1992, 1994, 2001, 2012) repudiates these claims on the ground of the pervasive, irresolvable and inherent information problems in markets for unemployment insurance, which derives from the unique character of the risk of unemployment. Accordingly, 'unemployment is a risk against which the private market is unable to provide systematic protection' (Barr, 2001: 49) and risk management in this area thus necessitate public intervention.

2.2 The mirage of private unemployment insurance

According to Barr the concept of insurance can either be defined 'as device that offers individuals protection against risks or as an actuarial mechanism' (Barr, 2001: 18). Different types of insurance fit the first part of the definition, yet only private insurance fits the latter. Private insurance is thus defined by being based on actuarial principles, which refers to the premium is based on 'the degree of risk and the size of the potential loss' (Ibid.: 19). In contrast social insurance, whether privately or publicly organised, is defined by inclusion of high-risk groups through mandatory participation and a less visible insurance contract i.e. the absence of a clearly stated relationship between premium, coverage and risk. Social insurance thereby makes it possible to break or soften the link between individual risk and individual premium on which actuarial insurance is based.

In order for actuarial insurance to be supplied and to be efficient the following conditions should apply to the risk in question (See Barr, 2001: 11-29; Moss, 2002: 22-52).

1. Independent probabilities. 'Insurance requires a predictable number of winners and losers' (Barr, 2001: 19), which in turn requires individual risks to be independent. Actuarial insurance can therefore not cope with systematic risks or common shocks as these are situations where individual risks are correlated, i.e. situations where 'if one person suffers a loss, so does everyone else' (ibid.). If probabilities are dependent risks cannot be diversified at any moment in time and in contrast to social insurance, actuarial insurance cannot diversify risks across time as intergenerational risk sharing through private contracts is impossible. Systematic risk thus implies that everyone would file claim at exactly the same time, which would deplete the resources of any private insurance company.

2. Risk, not certainty or uncertainty. 'Risk exists whenever more than outcome is possible' (Moss, 2002: 22). Situations with risk arise where outcomes are random and unknown, but governed by probability distributions known at the outset. In contrast, situations of certainty and uncertainty occur when outcomes are either known beforehand or where outcomes are governed by unknown probabilities. In situations where outcomes are certain insurance premiums will exceed the insured loss and therefore no one would take out insurance. In situations where outcomes are governed by uncertainty insurers cannot calculate expected losses or premiums to cover these precluding the existence of actuarial insurance.

3. Perfect information. A further condition is that all agents involved should be equally well-informed about the risk to be insured, which should be reflected in the insurance provider charging different premiums across risk categories.

The primary sources of failures in insurances markets stems from issues related to this last condition[1]. Problems of imperfect information are related to the issue of asymmetric information between agents, which gives rise to adverse selection (hidden knowledge) and moral hazard (hidden action). The former type occurs 'when individuals know more than their insurers about their own levels of risk' (Moss, 2002: 36). If risk screening proves difficult or impossible adverse selection give rise to the skewing of the insurance pool towards ever-higher levels of risk without this being reflected in premiums with the result that insurance markets are distorted and ultimately destroyed (ibid.). The problem of moral hazard arises where 'the insured can influence the insurer's expected loss (…) without the insurer's knowledge' (Barr, 2001: 31). This type of information problem is generated by the inability of the insurance provider to monitor people's behaviour, which gives the policyholders incentives to behave in more risky ways.

Barr (2001: 36-37; 2012: 174-175) stresses that the risk of unemployment is more complex than other types of risk. An issue in this regard is the fact that unemployment is a social construct defined by and rooted in labour market institutions and subject to changing definitions over time (Barr, 2001: 33; see also Whiteside, 2008). Beside this basic feature the risk of unemployment can be considered complex for additional reasons related to the assumptions underpinning the supply of actuarial insurance outlined above.

Whether probabilities of becoming unemployed are independent is subject to some controversy depending on the branch of economic theory you ascribe to. However, different theoretical traditions agree that in the short run unemployment contains strong elements of common risks as unemployment levels generally are related to the business cycle and thus tend to occur in waves. Regarding the question of risk versus certainty and uncertainty, the unequal distribution of unemployment among different risk-classes makes the supply of actuarial insurance impossible for groups where the probability of becoming unemployed is close to certain. Such cases include unemployed graduates with no work record, persons in seasonal occupations or unskilled individuals living in areas with high levels of unemployment. In relation to the issue of adverse selection actuarial insurance can cope with

[1] Information problems are not confined to the supply-side or to asymmetric information. Examples of other types of failures related to information and the demand-side include problems of perception, problems of commitment and problems of externalisation and feedback (Moss, 2002:39-49).

this by obtaining information on applicant's previous employment record. Groups with a short employment history will however be subject to adverse selection problems and applicants will further have information of relevance for their risk status, which is either unobservable or difficult to acquire. A way of overcoming problems of adverse selection is to make insurance compulsory for example by supplying insurance along occupational lines. This solution however raises the issue of how to cover bad risks as the probabilities of this group becoming unemployed will be too high for private insurance to be supplied making bad risks de facto uninsurable on actuarial basis.

Despite the significance of these problems Barr argues that the key problem associated with providing actuarial insurance is related to moral hazard. The problem of moral hazard is faced by both publicly and privately organised unemployment insurance schemes, yet can only be handled efficiently through legislation, which makes public provision the superior solution. The problem stems from the fact that insurance companies are unable to distinguish between whether people remain unemployed as a consequence of exogenous events such as lack of vacancies or as a consequence of endogenous factors such as lack of willingness to take a job or search for a job when covered by insurance. The latter case is an example of moral hazard, which can be addressed by monitoring the insured while unemployed. In contrast to other types of insurance, monitoring in relation to unemployment insurance is in this regard hampered by two factors. First, unemployment is often prolonged and requires continuous monitoring during the entire spell of unemployment. Secondly, monitoring is far from effective and furthermore a costly affair for the insurance company as it requires an extensive and intrusive monitoring system in order to ensure that the insured do not remain unemployed beyond the 'optimal duration period', i.e. 'long enough to allow for efficient job search, but not efficiently extended because of moral hazard' (Barr, 2001: 40). The costs and problems associated with monitoring makes calculating actuarial premiums difficult, which in turn makes the supply of actuarial based unemployment insurance problematic (Ibid.).

Private provision of unemployment insurance thus faces three fundamental problems. First, the problem of moral hazard potentially prevents the calculation of actuarial premiums and may therefore inhibit the supply of actuarial insurance. Secondly, problems associated with dependent probabilities and the difficulties in diversifying risk across time in the private insurance market may render the supply of private unemployment insurance impossible over time. Lastly, problems of external costs associated with gaps in coverage related to the unequal distribution of unemployment risk necessitate some form of public intervention (Barr, 2001: 47; Barr, 2012: 173-177). Practical issues in relation to compulsion, regulation, distributional effects and the calculation of relevant probabilities further disadvantage the possibilities of private supply (Barr, 2001: 42-46).

2.3 Welfare mix: A complimentary role for private unemployment insurance?

The faith of privately organised unemployment insurance prior to the introduction of public insurance (Alber, 1981; Nørgaard, 1997; Jensen, 2007b: 21) and the limited number and restricted types of private unemployment insurance schemes found today bears testimony to the inherent problems of private provision identified by Barr. Yet, it is important to note that the theoretical argument of Barr concerns what he terms 'real privatization' or 'large-scale privatization' which imply that '*all* unemployment insurance benefits in respect of *all* employees to be supplied by the private market' (Ibid.: 48 his emphasis). Hence, the argument is powerful in refusing an unemployment insurance construction exclusively based on private provision based on a specific understanding of what constitute private insurance, but cannot be taken as a wholesale rejection of any type of private involvement in the provision of unemployment insurance, which Barr also acknowledge in his survey of different private arrangements (Barr, 2001: 40-42). Despite directing our attention to the different dimensions of welfare provision, Barr's account also leaves out any considerations in relation to the mixing of the different pillars of welfare and how such interplay may influence the functioning of privately provided unemployment insurance. This section elaborates on these caveats to explicate the possible role of private schemes in the overall 'income packaging' of unemployed.

The key argument against private provision is related to the problem of moral hazard. While this problem applies to both the public and private sector the capabilities of the two sectors differ in relation to addressing the issue. As public insurance enjoy the advantage of deciding the level and structure of benefits in order to maximise work incentives, moral hazard issues are most effectively addressed through public insurance embedded in legislation (Barr, 2001: 40).

In the public insurance problems of moral hazard is dealt with through the implementation of different 'conditionalities' which refers to conditions for the receipt of insurance (e.g. Clasen, Kvist and Oorschot, 2001; Clasen and Clegg, 2007). Types of conditionalities have always and everywhere been a central component of social insurance in general and public unemployment insurance schemes in particular, yet the formal strictness of such criteria and how these are enforced in practice differs across countries (e.g. Ministry of Finance, 1998; Clasen and Clegg, 2007; Venn, 2012). We can analytically distinguish between three types of conditionalities; conditions of category, conditions of circumstance and conditions of conduct (Clasen and Clegg, 2007: 172-174). In terms of insurance such conditionalities are related to the issues of defining the relevant risk-category, managing access to the insurance and monitoring the behaviour of claimants. Where the former categories are concerned with access the latter is designed to tackle problems of moral hazard through the use of monitoring techniques. Venn (2012) distinguish between three types of interventions in this regard; conditions related to job search and availability such as availability during ALMP participation and demands on occupational and geographical mobility, conditions related to monitoring such as proof of job search and conditions related to sanctions such as sanctions for refusing job offers or ALMP placements. Such behavioural requirements are thus broadly centred on addressing moral hazard issues by compelling benefit recipients to actively search for work, to take up suitable job offers or to take part in active labour market programmes and are enforced by the public employment services or, as in the case of insured unemployed in the Ghent-countries, in collaboration between public employment services and private unemployment funds.

It springs from this that if such conditions are deemed suitable in addressing problems of moral hazard in public schemes private insurances relying on these measures in order to assess eligibility for private provision may be considered equally well-equipped in overcoming moral hazard related problems. Private insurance companies can in this way 'free-ride' on the extensive public monitoring system and thereby significantly reduce administration costs, which in turn allow them to calculate premiums more accurately.

A further example on how the interplay between public and provision may contribute in solving the issues raised by Barr is related to the problem of adverse selection. Barr argues that inefficiencies caused by adverse selection can be limited by making insurance compulsory, yet compulsion would only work along the lines of good risks and leave bad risk with little or no coverage (Barr, 2001: 37). Assuming that private insurance is organised as group insurances based on compulsion and restricted to supplement the public insurance for groups of good risks and assuming that the residual group of bad risks are sufficiently covered through the public insurance, this effectively rule out the problem of coverage, while limiting the problems associated with adverse selection.

These brief examples are far from exhaustive and certain problems, such as that of managing systematic risks, are still highly problematic to solve in private schemes[2]. The examples above however illustrate that approaching unemployment insurance from a welfare mix perspective may prove private alternatives more viable than otherwise suggested by Barr. Adopting this view further requires that we shift our focus from the strict distinction between actuarial insurance and social insurance adopted by Barr and instead assess the degree to which private and public schemes conform to these ideal types. As pointed out by Barr it is possible to incorporate actuarial principles into social insurance schemes and along a range of dimensions social insurance mimics the contractual and actuarial features found in private insurance schemes.

Titmuss (1974) conversely pointed to that when studying the actual behaviour of private insurance markets in relation to social risks this diverged markedly from the ideal typical principles of actuarial insurance outlined. He instead argued that the 'group insurance model' resting on compulsory participation and a weaker link between risk and premium was a 'more appropriate private model to consider in relation to public systems of social security' (Titmuss, 1974: 91).

The mix of principles found in both social insurance and actuarial insurance thus contribute in blurring the distinction between different types of insurances, which in turn highlights the value of expanding our conception of what we consider private social insurance and thus why it makes sense to treat the ideal types of actuarial insurance and social insurance as a question of more or less rather than either or. This way of distinguishing between public and private insurance also conforms to definitions supplied by Adema and Einerhand (1998: 6-9) and Hacker (2002: 29-33) where private social insurance encompass a range of different schemes. Here the definition of private social insurance is organised around whether it covers a social risk and whether insurance deviates from actuarial principles (Adema and Einerhand, 1998: 9).

If the insurance covers a social risk and the actuarial principles are softened, then the insurance fall within the realm of private social insurance and can be characterised as a

[2] In theory a way of overcoming systematic risks is to re-insure unemployment insurances on an international insurance market where business-cycles are un-correlated (Danish Economic Council, 2005: 256). This solution is however hampered by the marginal size of the international insurance market for unemployment insurance.

voluntary private social benefit. Thus, an 'individual contracts towards a social risk taken out with mutual benefit societies, by members of a specific occupation, and by groups of employees managed by a union are within the scope of private social support' (ibid.) as risk-sharing makes 'this type of 'group insurance' likely to ensure that the individual contributions are not fully determined by the individual risk-profile at going market prices' (ibid.).

This definition occupy a middle road between the definition of private and social insurance outlined by Barr and thus serves as a more appropriate starting point when analysing private insurance schemes providing coverage against social risks.

The point forwarded in this section is thus that endorsing a wider definition of private insurance as more than actuarial insurance in the strict sense is important not only with respect to our focus on the welfare mix and analysing changes within this mix, but also in relation to assessing the viability of private schemes. Building on the theoretical insights of Barr on the problematic dimensions in relation to the private supply of unemployment protection this section has emphasised how a welfare mix approach can help specify how and to what extent private unemployment insurances can play a complimentary role in the provision of unemployment compensation. In contrast to Barr's theoretical argument, which was concerned with fundamentally dismissing the contribution of Beenstock and Brasse (1986), this section instead highlights that while private provision is fraught with difficulties, the interplay between public and private insurance schemes and the organisation of private insurances can help address some of the key obstacles facing private provision.

Chapter 3: Welfare state change and the welfare mix

3.0 Changing the welfare mix

This section addresses the question of how to assess changes in the welfare mix. The first part of the section presents Hacker's (2004, 2005) framework for analysing changes in the welfare mix work grounded in the 'piggy-bank' conception of the welfare state (Barr, 2001) and adapt this approach to the analysis of changing social risks management in the Scandinavian context. Drawing upon recent work on the dynamics and nature of institutional change (Thelen, 2004; Hacker, 2004, 2005; Streeck and Thelen, 2005; Mahoney and Thelen, 2010) the second part of the section introduces two modes of change developed with the explicit aim of analysing changes in how social risks are allocated between welfare pillars (Hacker, 2004; Hacker, 2005).

The issue of welfare state change has dominated welfare research ever since Pierson (1994) seminal work on retrenchment. The vigorous academic debate on how and to what extent welfare states have change in the 'post golden age' has, however, failed to provide clear answers to these questions. An important explanation for the continuing dissensus derives from the so called 'dependent variable problem' (e.g. Castles, 1994; Pierson, 1994, 2001; Green-Pedersen, 2004, 2007a; Starke, 2006; Siegel and Clasen, 2007; Goul Andersen, 2007) defined as the problem of 'how to conceptualize, operationalize and measure change within welfare states' (Siegel and Clasen, 2007: 4).

According to Streeck and Thelen (2005) the study of change can be organised around two key dimensions; the *process* of change and the *result* of change. A derivative of Pierson first study of retrenchment has been a tendency to conflate these two dimensions, which following Piersons conclusions often led researchers to emphasise path-dependent processes of change implying that change was generally rare and limited in scope (e.g. Pierson, 1996, 1998; Esping-Andersen, 1996). The outcome of the 'retrenchment business' (Hinrichs and Kangas, 2003: 574) countered this conventional-wisdom. First, welfare states actually change quite a lot and often through ostensibly small incremental changes (Hinrichs, 2000; Hinrichs and Kangas, 2003; Andersen and Larsen, 2004; Thelen, 2004; Hacker, 2004; Streeck and Thelen, 2005). Secondly, there is no single all-encompassing dependent variable, which can adequately cover the different types of change observed (Pierson, 2001; Palier, 2003; Siegel and Clasen, 2007; Green-Pedersen, 2007a).

Thus, the now-conventional wisdom is that assessing welfare state change is closely related to theoretical concerns and thus cannot be reduced to methodological issues of selecting the right indicators or the right amount of indicators. A key issue in this regard is what we mean by the concept of the welfare state itself (Green-Pedersen, 2007a; Starke, 2006; Bonoli, 2007). Thus, the selection of the 'appropriate dependent variable' in the words of Bonoli (2007: 39) is at base derived from the welfare state definition you ascribe to, which in turn is derived from the research question under investigation.

As Barr (2001), we endorse the notion of the welfare state as a 'piggy-bank', which refers to the central task of the welfare state in providing insurance against social risks and redistribution over the life cycle. Defining the welfare state in terms of its insurance function imply that the core goal of social policies is to 'moderate the risk of current income loss or inadequacy by providing secure cash or near-cash entitlements on the occurrence of defined risks' (Graetz and Mashaw, 1999: 65). This way of conceiving the welfare state has a long tradition in welfare research (Briggs, 1961; Titmuss, 1974; Baldwin, 1990; Esping-Andersen, 1999; Mares, 2003), yet studies still tend to focus predominantly on the role of the welfare state in redistributing income (e.g. Huber and Stephens, 2001), which is naturally related to the task managing social risks, yet still represents a distinct approach. In relation to the welfare mix approach the study of change undertaken is thus concerned with changes in how social risks are managed and the distribution of responsibility between different welfare pillars in this regard.

According to Powell (2007) the assessment of welfare mix change can be grouped into three categories. In the first category the focus is on the single issue of welfare provision across state, market, the voluntary sector and the informal sector and the study of change is thus centred on describing moves from state to market or processes of privatization. Another type of studies further include the role of finance and thus highlight the different possible routes through which privatisation can take place. A third approach focus on provision, finance and regulation in order to draw out the complex shifts in responsibilities between the different sectors. This multidimensional approach highlights the multiple ways of combining the provision, regulation and financing of welfare tasks in between the ideal types of pure market and pure state, which in turn makes the problem of how to delineate the different spheres of welfare a recurrent theme (Hacker, 2002; Powell, 2007; Seeleib-Kaiser, 2008; Barr, 2012). Despite its usefulness in highlighting the different relevant dimensions when analysing changes to the welfare mix, a derivative of such multifaceted approaches is that it generates a myriad of change dimensions and possible change combinations, which ultimately cut against the ambition of welfare researcher to arrive at fairly parsimonious characterisations of the observed policy change (Pierson, 2001b: 421).

Goodin and Rein (2001) instead introduced the concept of 'pillars' to summarise output changes in the welfare mix. This approach is organised around the questions of 'who pays and who provides?' (Ibid.: 770) in order to clearly delineate the boundaries between types of provision and financing principles and thus distinguish between the responsibilities assigned to the different institutions that make up the welfare mix. In this approach the question of change is concerned with the mixing of pillars where 'the driving force is the shift in the roles and responsibilities assigned, respectively, to the state, the market and community/family spheres of society' (Ibid.: 771). The pillar approach has figured prominently in pension studies where it has been utilised to identify shifts toward 'multipillarization' i.e. the layering of private supplementary schemes and the interplay between existing public schemes and new types of private schemes (e.g. Immergut et al., 2007; Ebbinghaus, 2011).

Where the pillar approach is concerned with the output level of change Seeleib-Kaiser (2008) further differentiates between different levels of change by distinguishing between the analytical levels of discourse, institutions and outcome (ibid.: 10-13). This is done since 'depending on the level of analysis we could arrive at very different conclusions' (Ibid.: 12). The case of the Danish pension system illustrates this point. The spread of sector-wide labour market pensions through collective agreements from the late 1980s and onwards imply that the Danish pension system now – formally - rank among the most privatized in the world (Green-Pedersen, 2007b; Andersen, 2008, 2011b). This major transformation has however not altered the social outcomes of the Danish pension system, which remains highly redistributive and continues to offer solid protection against poverty in old age. Hence, the description of the development as 'Social Democratic multipillarization' (Andersen, 2011b: 183). The Danish case thus highlights the potential fallacies of conflating change at the output and outcome level.

3.1 The privatization of social risks

Hacker (2004, 2005, 2008) provides a framework for studying the outcome effects of changes in how risk-protection is organised between welfare pillars. Change in risk-management practices are operationalized with reference to a continuum stretching between the ideal types of 'risk-socialization', defined as arrangements where risks 'are spread across citizens of varying circumstances' (Hacker, 2005: 50), i.e. pooled across risk-classes in either public or private schemes, and risk privatization, where social risks are left to 'individuals or families to cope with on their own' (ibid.). The key distinction thus concerns whether the responsibility of protection against social risks is collectivised or individualised and how individualised risk protection affect the coverage of bad risks.

Accordingly, to 'privatize' risk is 'to fragment or undermine collective insurance pools that offer reduced-cost protection to higher-risk and lower-income citizens in favour of arrangements that leave individuals and families responsible for social risks largely on their own' (ibid.).

With reference to the classic risk-management tools of *spreading* and *shifting* (Moss, 2012: 23) the concept thus focus on two change dimensions; the extent to which social risks are spread or pooled and whether the management of social risks are being shifted between welfare pillars (Hacker, 2005: 50). The pooling and shifting of social risks are naturally related as the narrowing of risk-pools in situations of persisting risks automatically generates a shift in responsibilities, the impact of such shifts however varies across risk-classes.

By incorporating both the welfare mix and the outcome dimension of change the concept of risk privatization has more analytical substance than the contributions highlighted above. Yet, the concept is also distinctively American in that it exclusively concerns developments in an American welfare context, which historically have been characterised by extensive reliance on private provision organised mainly through employers and supported by generous tax subsidies (Hacker, 2002). The risk shift in American social policy thus reflects a partial breakdown of this private sphere of welfare, which has left a growing number of Americans to fend for themselves in terms providing coverage against social risks. This distinctive feature might explain why the concept has yet to be applied in other settings. A key problem in this regard concerns the issues of how to operationalize and measure 'risk-privatization' in welfare contexts different from the American.

3.2 Risk privatization in the Scandinavian context

The analysis of risk privatization may as a ground rule consider the existing allocation of welfare tasks between sectors. The fact that the overall role of private provision is minor in the Nordic welfare systems (e.g. Adema and Ladaique, 2009; Adema and Whiteford, 2010; Adema, Fron and Ladaique, 2011) and that the Nordic welfare states continue to rank among the most generous and comprehensive (e.g. Scruggs and Allan, 2006; Scruggs, 2006) thus serves as point of departure when analysing processes of risk privatization in the Scandinavian context.

Hence, where risk privatization in the American case is a consequence of the gradual dismantling of an extensive private sphere of welfare provision and the failure of adapting a less-developed system of public provision to these changes, processes of risk privatization in Denmark and Sweden concerns the exact opposite type of adaptation; the establishment and development of private provision in response to changes in a comprehensive system of public provision. It follows from this that issues concerning the basis for organising such responses as well as the interrelation between new private schemes and existing public schemes command attention when assessing processes of risk privatization in a Scandinavian welfare context, which in turn underline the importance of considering both the output and outcome dimensions of change.

Hacker (2004, 2005) argues that the breakdown of the relatively comprehensive private system of risk protection in America has been greatly aided by the weakening of organised labour and thus points to the role of collective intermediaries such as unions in processes of risk privatization. Similarly, recent contributions have stressed the important role of unions in shaping private social policy and argued that the study of welfare state retrenchment should include considerations of how industrial relations influence such processes (Ebbinghaus, 2006; Trampusch, 2007a, 2007b). Focusing on the role of collective agreements in this regard Trampusch argue that 'if we include industrial agreements on welfare benefits in our analysis of retrenchment policies this probably provides less straightforward and more complex answers to the question of how retrenchment policies affect the role of social partners and the generosity of benefits' (Trampusch, 2007: 252).

The example of the privatization of the Danish pensions system is illustrative in this regard and can be considered an instructive example of how processes of risk privatization proceed in contexts characterised by encompassing public systems and powerful collective intermediaries. In line with the argument of Trampusch (2007) the example highlights that in settings where collective intermediaries have the ability to organise collective responses to the retrenchment of public policies, changes in risk-management practices are likely to shift the responsibility of risk protection onto collectives rather than individuals or families. The presence of trade unions with the ability to act upon changes in public policies may thus lead 'to a more complex public–private mix that shifts welfare states in other directions than outright market liberalization' (Trampusch, 2007: 264). The process of risk-privatization in a Scandinavian context may thus involve formal shifts from public to private responsibility for risk protection as well as a narrowing of risk pools, the key dimensions of risk privatization according to Hacker, without creating adverse social outcomes due to strong collective intermediaries with the ability to organise encompassing private insurance schemes and the prevalence of relatively generous protection of bad risks in public schemes.

On this basis, figure 1 provides a way of operationalizing processes of risk privatization in a Nordic context. Centred on the key issues of risk shifting and risk pooling, risk privatization is operationalized along the dimensions of provision and finance and the outcome dimensions regarding the degree of personal responsibility and the degree actuarial insurance.

Figure 1: Operationalizing risk privatization

		Risk pooling	
		Output	Outcome
Risk shifting	Provision	Institutional changes in the provision of insurance	- Degree of personal responsibility for risk protection - Degree of actuarial insurance
	Finance	Changes in how risk protection is financed	

Following Goodin and Rein (2001) the output dimensions of provision and finance concerns changes in the roles and responsibilities assigned to the different welfare pillars and above all focus on processes of 'multipillarization'. In line with Ebbinghaus (2011) the assessment of changes to the public-private mix at the output level focus on issues related to risk coverage, the type of benefits provided and how these are financed and organised. The outcome variables of personal responsibility and actuarial insurance aims at capturing to what extent changes can be characterised as risk privatization by focusing on how changes in the welfare mix affect the degree of personal responsibility and level of actuarial principles found in private schemes. The idea here is that risk protection can be organised more or less collectively, which affect both the degree of personal responsibility for risk protection as well as the degree of actuarial insurance found in private schemes.

The degree of private responsibility and actuarial insurance in private schemes is measured along two key dimensions; access to risk protection and financing of risk protection.

Underpinning both outcome indicators is the issue of how and to what extent bad risks are influenced by changes in the welfare mix. The key question in this regard is the level of risk coverage provided by the public insurance and the relationship between the public insurance and supplementary provision.

3.3 The process re-drawing the public-private boundaries

This section introduce the concept of layering and drift developed to describe and explain incremental processes of welfare mix change generating 'risk-privatization' (Hacker, 2004, 2005) as well as general forms of gradual institutional change (Thelen, 2002, 2004; Streeck and Thelen, 2005; Mahoney and Thelen, 2010).

Layering is a type of gradual policy change that occurs through the addition of new elements to existing programmes without dismantling these in the short run. Proponents of layering typically portray the introduction of new schemes as refinements, correctives or amendments to institutions already in place, which makes changes appear 'natural' and less-visible and thus hinder counter mobilization by defenders of status quo. However, as the superimposed institution grows over time it potentially set in motion path-altering dynamics as supporters of the original institution gradually defect, undercutting support for the old institution and thereby making it increasingly prone to change. In the longer run the introduction and differential growth of new institutions relative to older ones thus give rise to a similar type of feedback as identified in public schemes, which imply that the creation of a new layer may contribute in reshaping the preferences and strategies of actors during the course of time and in this process alter the overall developmental trajectory of existing institutions (Streeck and Thelen, 2005: 22-24). Hacker (2005: 74) emphasise how the role of private benefits decides the strategies adopted in this regard. In cases where private benefits are supplementary layering typically requires active use of power to increase the attractiveness of private options relative to existing public provision and thereby stimulate their expansion. Such measures involve setting up a regulatory environment conducive to private provision, for example, through the introduction of generous tax breaks in order to stimulate take-up in the short run which can create 'differential growth' in the longer run as private schemes are expanded at the expense of maintaining existing public schemes. Initiatives in this category have been extensively used in the layering and expansion of private pension arrangements, which stands as a classic example of processes of institutional layering (e.g. Ebbinghaus, 2011).

Drift describes 'changes in the operation or effect of policies that occur without significant changes in those policies' structure (Hacker, 2004: 246). Change through drift occurs when the deliberate neglect of policies make these less capable of achieving their initial goals. In the short run such changes appear modest, yet over time these accumulate and intensify to transform the ground-level impact of institutions (Hacker, 2005: 45-46). Drift bears resemblance to the concept of 'decrementalism' (Pierson, 1994: 20-21), which concerns changes in the indexation method governing the adjustment of benefits. Although vital to social programmes the issue of indexation has received scant attention in welfare research (Weaver, 1988; Green-Pedersen et al., 2012) and have primarily been addressed in studies of pension reform, where the introduction of changes in indexation mechanisms has been a powerful tool in curbing future pension spending (Schludi, 2005; Immergut et al., 2007).

‘Decrementalism’ represents a type of policy change generated by the active and deliberate decision of policy makers to gradually reduce the generosity of benefits through the introduction of less generous indexation procedures. Such failure of protecting benefits against inflation risks constitute a prime example of ‘dismantling by default’ where the economic protection provided by social benefits are allowed to gradually erode (Green-Pedersen et al., 2012). In the longer run the outcome of such policy leads to an ‘implicit privatization’ (Pierson, 1994: 20) or ‘passive privatization’ (Bridgen and Meyer, 2007: 223) of social provision as the gradual hollowing out of benefit compensation increasingly shift provision to the private sector often in an incremental and less-visible way that impede active opposition to such changes. Essentially, the underlying idea of drift thus bears resemblance to logic underpinning the earlier “crowding-out” thesis of private arrangements derived from generous public schemes (Künemund and Rein, 1999).

Chapter 4: Research design

4.0 Most similar research design and case selection

This paper investigates the differential growth of private unemployment insurances in Denmark and Sweden during the 2000s in light of the policy changes made to the public UB system in both countries since 1990. The study thus qualifies as a small-n study where the unit of analysis is the public and private branch of unemployment insurance analysed diachronically in the period between 1990 and 2013. In light of the high degree of institutional similarity, which characterises the two cases, the paper employs a 'Most Similar Systems Design' (Przeworski and Teune, 1970). In relation hereto the chapter addresses the important issue of case selection in small-n studies (George and Bennett, 2005; Ebbinghaus, 2005) as well as the obstacles in relation to data and data comparability when undertaking comparative studies of the welfare mix (e.g. Reinwater and Lee, 1986; Esping-Andersens, 1990).

A central methodological issue in comparative analysis is the 'many variables, small N problem' (Lijphart, 1971: 686), which refer to the 'combination of many factors assumed to be causally relevant with evidence from only small number of comparable cases' (Rueschemeyer, 2003: 305). Different strategies can be deployed for minimizing this problem. One, which quantitative researches often rely on, is to increase the number of cases as much as possible (Lijphart, 1971: 686). Another strategy to overcome the problem is through small-n approaches.

As small-n studies rely on deliberate case selection as opposed to random case selection in large-n quantitative comparisons the issue of case selection becomes vital (George and Bennett, 2005: 234; Ebbinghaus, 2005; Gerring, 2007). Yet, issues related to this sampling method is furthermore, the main line of criticism of the small-n approach due to an argued 'selection bias' where case selection is asserted to lead to false inference (e.g. Geddes, 1990; King et al. 1994). In continuation hereof, case study researchers have developed a diverse range of methods to select cases (e.g. Lijphart, 1971; Eckstein, 1975; Seawright and Gerring, 2008).

As indicated in the introduction, this thesis studies the differential growth of private unemployment insurances in Denmark and Sweden. The thesis thus relies on a 'Most Similar

Systems Design' (Przeworski and Teune, 1970), where cases are selected on the dependent variable i.e. the outcome to be explained. This sampling method dates back to when Mill (1843) espoused the modern comparative methodology and are considered a standard approach to minimizing the 'many variables, small N' problem (Lijphart, 1971). In order to minimise the universe of relevant cases and to define what constitutes 'similar' and 'different' cases, typologies have been a frequently used devise for case selection in comparative research and have likewise been integral to the comparative study of social policy since its infancy (e.g. Wilensky and Lebeaux, 1958; Titmuss, 1958). In the voluminous literature that emerged in the wake of Esping-Andersens (1990) paradigmatic welfare regime typology, often referred to as the 'welfare modelling business' (Abrahamson, 1999), Denmark and Sweden have, with few deviations (e.g. Korpi and Palme, 1998), been considered the ideal typical examples of the Social Democratic regime (Arts and Gelissen, 2002, 2010). Both countries are further recognised as prime exponents of the distinctive and renowned Nordic or Scandinavian welfare state model (See Kautto, 2010 for an overview). Typologies in the related literature on industrial relations have likewise grouped both countries into the neo-corporatist cluster of labour relations, which among else is characterised by strong, encompassing and centralised unions and equally well-organised and centralised employers (Crouch, 1993; Ebbinghaus, 2006). In relation to how unemployment insurance is organised both countries, as noted, are among the few countries left to have retained the so called Ghent-system of unemployment insurance. Thus, when considering the key attributes of welfare state structure, industrial relations system as well as the policy area of interest, Denmark and Sweden share important and numerous similarities and are therefore often conceived as 'comparable cases' (Lijphart, 1971: 689) and the two cases has thus frequently been used in comparisons of unemployment protection systems (e.g. Björklund, 2000; Green-Pedersen and Lindbom, 2005; Clasen and Viebrook, 2008; Goul Andersen, 2012a).

4.1 Data and sources

In the words of Esping-Andersen 'any study of the public-private mix faces formidable obstacles' (1990: 81). As highlighted above, one obstacle regards the difficulty of delimiting the 'private' and 'public' sphere of social policy. Another concerns the paucity of reliable data when it comes to private schemes, which explains why authors focusing on private welfare schemes have tended to embrace notions such as 'the hidden welfare state' or 'shadow welfare state' when describing the role of private schemes in the overall welfare architecture. Although recent work has helped remedy some of the data problems, there are still sizeable gaps in coverage, quality and comparability of data on private schemes compared to the extensive data available on the public welfare scheme. The problem of data access, quality and comparability in relation to private schemes is especially prominent when analysing developments of recent origin as done in this thesis, which naturally influence on the validity and reliability of the study undertaken.

In the Danish case official data on the number of private insurances as well as the total premiums collected has been reported on a yearly basis since 2006 and covers the ten largest suppliers. In relation to premiums found in the respective schemes, disbursements, conditions and coverage no official reports or statistics are available. Investigating these issues thus unavoidably relies on scattered information supplied in reports on the subject and newspaper articles as well as the accessible information available through insurance companies and unemployment funds offering private schemes. The lack of systematically collected information necessarily hampers efforts to provide a comprehensive overview of how private schemes have developed, yet the relatively short period in which private insurances have been supplied and the limited number of private insurances enhances the relevance of anecdotal evidence in the Danish case.

Official data on private unemployment insurances in Sweden have yet to be collected. The data supplied in this thesis is thus an estimate of the number private insurances derived from data supplied by the three main confederations, information from annual accounts of the largest insurance companies and additional data provided by insurance companies. The four largest insurance companies in the market for private unemployment insurance Folksam, Bliwa, Sif/Unionen Medlemsförsäkring and SACO Salusansvar have all provided data on the number of insurances, premiums and disbursements from the insurances.

The information on gainfully employed members has been supplied by three main confederations for the period 2000-2012, which together with information on the introduction dates of group insurances serves as basis for the yearly estimates of the number of active members in unions offering group insurance. However, as all group insurances stipulates conditions for coverage, which are not met by all active members, i.e. gainfully employed members, data will tend to overestimate the total number of active enrolled in group insurance scheme. Three conditions are of importance in this regard; only members of both unions and the unemployment insurance is covered by an collective insurance and coverage is further restricted in relation to the wage and age of union members. Regarding the former the increasing number of union members abstaining from unemployment fund membership fund will affect the estimations found in the thesis (Kjellberg, 2009, 2011).

Coverage is typically only provided for members under the age of 64 or 65 depending on union affiliation, which are in line with the age-limit of 65 in the public insurance (see appendix). Formal pension age in Sweden throughout the 2000s have been 65 years and the effective retirement age between 2004 and 2009 was 66 years for men and 63.6 for women (OECD, 2011: 42) indicating that the share of employed members who do not fulfil the age requirements is limited.

A key problem in relation to constructing time-series on the number of active union members covered by group schemes is related to conditions regarding wage level. In most union provided group insurances only employed members with wages above the ceiling in the public insurance pays into and are covered by the scheme. Other unions have included all members in the insurance and members who do not qualify for top-up instead receives additional job-search support. Thus, the number of insured members effectively derives from the development in wages relative to the maximum ceiling in the public unemployment insurance and the time-series reported are therefore sensitive to both wage developments as well as changes in the maximum ceiling. An indicator of the number of union members with wage levels above the ceiling is given by the number and distribution of 'under-insured' unemployed in the period surveyed, which has increased continually due to the non-indexation of benefits from 2002 and onwards as well as the reform in 2007. The number of unemployment funds where 90% or more of claimants had prior earnings above the ceiling increased from 1 in 2005 to 19 in 2013 and is concentrated in unemployment funds under SACO and TCO and the Metal workers unemployment fund under LO (SO, 2005, 2013). On this basis estimations are generally more accurate from 2007 and onwards and more precise in regards to SACO and TCO unions where the wage level is generally higher than in LO-unions.

Chapter 5: Towards a system of basic security

5.0 Dismantling income replacement

As noted earlier both the Danish and Swedish UB system has undergone profound changes since 1990. Comprehensive reviews of these changes have been provided elsewhere (Goul Andersen, 2011a; 2012a; Sjögren, 2011; Davidsson, 2011) and this section therefore focus on changes of key relevance to the crowding-in of private supplementary insurances; the level of income replacement offered in the public insurance. It will be shown that the basis for the introduction of private insurances has been the gradual erosion of income replacement in the public insurance for a growing share of the labour force. This development is rooted in changes in indexation of benefits initiated in the early 1990s and in the Swedish case this trend was further aggravated by the lowering of the benefit ceiling in absolute terms in 2007. The drift of the benefit ceiling relative to wages brought about by these changes has dismantled the principle of income replacement in the public insurance and generated a public system of basic security for the majority of employed, which in turn has served to crowd-in private supplementary insurances for the group of middle and high earners, who face substantial income declines in the event of unemployment.

5.1 Sweden: From gradual to radical dismantlement

In the early 1990s Sweden went through severe economic turmoil. On the back of extensive and rapid financial deregulation and a highly inflated housing bubble, the Swedish economy went through the deepest economic recession since the 1930s (e.g. Englund, 1999). The associated steep rise in unemployment made the costs of unemployment benefits a salient issue on the political agenda as soaring deficits in the labour market fund, which until 1995 financed unemployment benefits and active measures for the unemployed, necessitated extensive public borrowing. Against this background the unemployment insurance was significantly reformed through the 1990s, which in contrast to the otherwise consensual policy making characterising Swedish politics caused great controversy between trade unions and governments of different stripes (Bergh and Erlingsson, 2009).

In 1993 the Centre-Right government (1991-1994) managed to get a third 'crisis package' through the parliament. In contrast to the former two, where the Social Democrats managed to avoid cuts to the unemployment insurance, this package included several radical initiatives (Dahlström, 2005: 17-18; Lindvall, 2010: 168). The package repealed the recently introduced improvements by restoring the five day waiting period, cutting the replacement rate from 90 to 80% and extending the qualification period from 4 to 5 months (Olli Segendorff, 2003: 27-29). In addition, the maximum benefit was reduced from SEK 598 to SEK 564 and the newly introduced indexation mechanism, which linked the benefit ceiling to the wage development of average production workers, was abolished (SO, 2008: 4). In the future the maximum amount was instead to be decided by the government without the parliament's involvement (Green-Pedersen et al., 2012: 141) and unlike most other benefit schemes in Sweden, which are linked to the so called base amount (*Basbelopp*) derived from the consumer price index, unemployment insurance was now left without automatic protection against inflation[3] (Sjöberg, 2011: 221).

Before the former Social Democratic government in 1988, with effect from 1990, decided to link unemployment benefits to wages, no formal indexation mechanism had been in place since the grand reform of the unemployment insurance scheme in 1973 (Green-Pedersen et al., 2012: 141). During this period, adjusting benefits was thus formally at the discretion of parliament, which left plenty of room for political contestation. Yet, governments of different stripes raised the maximum amount 13 times during the 17-year period (Olli Segendorff, 2003: 39) with the effect that net replacement rates increased during the 1980s as benefits grew more than wages (Lindbom, 2001: 177). This political consensus on indexing unemployment benefits during the 1970s and 1980s sharply contrasts with how the issue later was to become central in the political debate.

After taking over as Prime Minister of the Social Democratic government (1994-2006) in 1996, Göran Persson soon announced that the primary goals under his leadership were to cut unemployment in half and to raise the ceiling in the unemployment insurance (Davidsson, 2011: 151).

The twin goals of sound public finances and reducing public debt were central issues on the political agenda in the wake of the crisis and following recommendations by the government appointed Lindbeck-commission new rules to regulate the budget process more tightly were implemented in 1996 (Gould, 2001: 44). These stipulated that the public debt should reach a sustainable level in 1998 and public finances should display a structural surplus going forward. To help facilitate the fulfilment of these goals budget caps were introduced from 1997 and onwards (Davidsson, 2011: 152). By the late 1990s public finances once again displayed a surplus and forecasts signalled healthy public finances going

[3] In the 1990s the base amount was not raised in line with prices, which led to that its value declined by 12 per cent from 1991 to 1998 (Gould, 2001: 62).

forward (Gould, 2001: 46). Yet, reintroducing automatic indexation was now ruled out with reference to how this would risk violating the newly installed budget caps (Davidsson, 2011: 152). Instead, the Social Democratic government turned to nominal increases of the ceiling. This first happened in 1997 and again in 2001 and 2002 (Ibid.). After the alliance between Social Democratic government and the Left party broke down in 1995 over arguments on benefit cuts, the government shifted to cooperation with the bourgeois Center Party. In 1996 they agreed on a comprehensive deficit reduction package, which entailed cutting the replacement rate to 75% in 1996 (Anderson, 2001: 1082; SOU, 2008: 7). Predictably, this initiative sparked large protests by LO who for the first time took to the streets and demonstrated against a Social Democratic government (Davidsson, 2011: 143). In 1997 the Social Democrat government yielded to the pressure and compromised with LO to re-introduce the 80% replacement rate and to raise the maximum benefit ceiling slightly from the 1993-level of SEK 564 to SEK 580 (Anderson, 2001: 1082-1083; Gould, 2001: 139).

The subsequent year saw the release of a report by an intra-departmental committee in the Ministry of Industry, Employment and Communications, which advocated raising the ceiling during the first 100 days of unemployment in order to increase the generosity of unemployment benefits for middle-income earners (Ds, 1999). Although welcomed by the trade unions the proposal was still regarded insufficient due to the lacking indexation (EIROonline 1999). Yet, the government still decided to adopt the proposal and the 2001-budget introduced an 'increased maximum benefit' (*förhöjt belopp*) during the first 100 days of unemployment, which raised the ceiling from 580 SEK to 680 SEK per day corresponding to an increase of 17% (Bennmarker et al., 2007). In addition, the basic amount (*Grundbelopp*) was raised and the government announced further improvements in 2002 'if state finances were favourable' (EIROonline, 2001). The economic upswing in the early 2000s paved the way for realising this promise and prior to the 2002-election the insurance was substantially improved as the 'increased maxium benefit' was raised from 680 SEK to 730 SEK and during the subsequent 200 days of unemployment the former maximum ceiling of 680 SEK now applied.

After declining since the mid-1990s unemployment began to rise slightly again from 2003 and combating unemployment became a salient issue in the 2006 election campaign (Martinsson, 2009). After a disastrous election result in 2002, the main opposition party, the Moderate Party (*Moderaterna*), started moving to the centre of politics (Lindbom, 2008). Central to the new political strategy was to focus the voters' attention on the failure of the

Social Democratic government in tackling both open unemployment and the problem of the 'outsiderness' (*Utanförskabet*), i.e. persons of working-age outside the labour market (Davidsson and Marx, 2012: 13). The strategy succeeded as the Social Democrats lost issue issue-ownership in the area of employment policy for the first time ever in the 2006-election, which paved the way for a landslide win for the Centre-Right Alliance headed by the Moderate Party (Widfeldt, 2007; Oscarsson and Holmberg, 2008; Martinsson, 2009). In contrast to the oppositions new and more moderate political strategy, the election manifesto of the Alliance proposed a range of radical retrenchment initiatives in the unemployment insurance, which despite being met with large protests, was quickly put into practice when the new government took office in late 2006. From 2007 the increased maximum benefit was scrapped leaving the maximum ceiling at 680 SEK and a new regressive replacement rate was introduced where claimants would receive 80% during the first 200 days of unemployment and 70% the following 100 days of unemployment and after 300 days participants in the 'Activity Guarantee' (*Aktivitetsgarantin*), replaced by the 'Job and development guarantee' (*Jobb och utvecklingsgarantin*) in 2007, would receive 65% of previous earnings compared to the former 80%. In addition, all benefits were now to be calculated from income earned during the reference period of 12 months instead of the qualification period of 6 months (SO, 2008: 16-18). Another central initiative was the introduction of individual and differentiated fees as well as the removal of the tax deduction for membership, which more than doubled membership fees for most employed and generated a rapid and unprecedented drop in the number of insured in 2007 and 2008 (Kjellberg, 2009). After heavy critique from the Economic Council as well as trade unions and the opposition fees were reduced slightly in 2009 (Swedish Fiscal Policy Council, 2008, 2009) and is expected to be further reduced as part of a new tripartite-agreement between the government and the social partners in 2013 (Ds, 2013).

The benefits cuts however remained in place, which led unions to join forces with the Social Democrats in demanding higher benefit ceilings prior to the 2010-election, which became a central part of the 'government platform' presented by the red-green opposition in the run-up to the election (Sjöberg, 2011: 223; Widfeldt, 2011: 585). Yet, for the first time in Swedish history a Centre-Right government managed to get re-elected and as the erosion of benefit generosity continues due to the lack of indexation reforms of the unemployment insurance continues to be a highly politicized issue before the 2014-elections.

5.2 Denmark: Consensual dismantlement

As in Sweden, the first attempt to cut unemployment benefits in Denmark was introduced in an economic crisis package introduced by the new Centre-Right coalition (1982-1993) in 1982 after being left with the responsibility of managing an economy that according to the former Minister of Finance was at 'the brink of the abyss' (See Goul Andersen, 1997, 2000, 2011c).

In an attempt to restore the economy the new bourgeois government proposed a large scale austerity package, which among else entailed the lowering of benefit levels in sickness, unemployment and early retirement benefits from 90 to 80% (Green-Pedersen, 2002: 114). Yet, in order to get the crisis package through parliament the minority government conceded to the Social-Liberals (*Radikale Venstre*), who had just brought the new government into office by withdrawing their support for the former Social Democratic government, and the compromise eventually transformed the proposal into a freeze in the indexation of benefits (Asmussen, 2007: 100-101). Before 1982 unemployment benefits had been indexed in relation to both prices (*Dyrtidsregulering*) and wages (*Taktregulering*) to ensure that benefits would follow real wages in the private sector (Green- Pedersen et al., 2012: 135; Pedersen, 2007: 82-83). The compromise abolished the wage indexation all together and introduced a temporary suspension of price indexation from 1983 to 1985, which eventually was extended until 1986. Consequently, the maximum ceiling in the unemployment insurance was not indexed for three years and as inflation averaged 10% per year during the period this amounted to substantial benefit cut despite the decision to maintain the high maximum replacement of 90% (Green-Pedersen et al., 2012: 135). In concert with a limited indexation in 1986 the existing price indexation was abolished the same year. Instead a new system of indexation covering the entire public sector was introduced, which left the adjustment of benefits to the parliament to decide each summer on the grounds of the expected price level the following year (ibid.). As in the Swedish case, the visible and clear effects of the lacking indexation generated fierce political protests as the left-wing opposition headed by the Social Democrats attacked the governments' economic policy for being anti-social and unjust to the weakest in society (Green-Pedersen, 2002: 114-120). As a result of the strong opposition the government agreed to raise benefits by 6% on top of the price indexation in the 1988-budget agreement to compensate for the lack of indexation in the preceding years (Green-Pedersen et al., 2012: 136).

The political row over benefit indexation however continued in 1989 when the government proposed another round of benefit freezing with reference to the still weak economy. This time the opposition united against the minority government and the proposal instead ended up forcing the government ‘to draw up proposals for the future indexation of all social benefits in accordance to the yearly wage development among employed’ (Folketinget, 1989). The outcome was a new indexation scheme (*Satsreguleringsloven*), which from 1991 would tie most social benefits to the development of annual real wages in the private sector with a lag of two years. The new indexation rules diverged from the parliamentary decision in one aspect as the scheme introduced a mechanism whereby any wage increases exceeding 2.3% would transfer 0.3% to an indexation fund (*Satsreguleringspuljen*).

This amendment implied that benefit recipients automatically would receive full compensation within wages increases in the range of 2% and above 2.3%, i.e. if wages increase by 3% benefits will increase by 2.7% and the remaining share will be transferred to the indexation fund. The original agreement stipulated that fund resources should be directed towards improving cash benefits and the new indexation system thus provided both automatic indexations of benefits while leaving parliament some autonomy to finance selected improvements of benefit schemes (Green-Pedersen et al., 2012: 138). By 2013 close to 13 billion DKK had accumulated in the fund which was roughly the yearly amount spent on unemployment benefits prior to the current crisis. The funds financial capacity has however not been utilised for improving benefits. Instead, fund resources have been directed towards financing other social programmes targeted marginalized groups as well as other political initiatives. A large reform of the disability pension scheme in 2001 was for instance partly financed by fund resources. Consequently, the indexation mechanism by default under-compensate benefit recipients 0.3% every year depending on the development of wages in the private sector[4]. As the calculation omits pension contributions from wage earners and disregards the changing composition of the Danish work force this adds further to the under-indexation.

Since 1990 payments to the labour market pensions in per cent of gross earnings has increased from below 1% to ranging between 12 and 18% in 2012 (Goul Andersen, 2011b: 193). Under the current regulation benefit recipients are not compensated for this change in the structure of gross earnings, which is of special relevance in a life-cycle perspective as benefit recipients miss out on a substantial deferred wage, yet the status of deferred wage also implies that the exclusion of pension contributions have no immediate effect

[4] In 1991 and 1992 wage increases were below 2% and thus too small to generate money for the indexation fund. The same happened in 2011 and 2013.

on neither consumption possibilities of benefits recipients nor the level of compensation relative to prior wage. Another aspect of importance derives from the fact that increases in annual wages used for regulating benefit level are calculated using a fixed weighted sum of wage increases for both blue- and white collar workers. The calculation thus disregards the effect of the increased proportion of white collar workers in the workforce since 1990 (Scheuer and Hansen, 2011), which imply that wage increases stemming from higher educational attainment and higher skill levels are not fully covered in the indexation. The combined effect of these rules is asserted to 'under-compensate' benefit recipients by around 0.5% annually (Goul Andersen, 2012b: 26).

The new indexation scheme was adopted by a broad political majority when the law was passed in 1990 with the support of all major parties. Since then the cross-party consensus on the scheme has only been challenged by the tiny lift-wing party 'Unity List' who entered parliament in 1994 and is the only party who refrained from supporting the revision of the scheme in 2001 to allow the supporting party of the new Centre-Right government to enter the agreement (Green-Pedersen et al., 2012: 138). The political consensus and stability that have surrounded the scheme since its initiation imply that all major parties in the parliament have a seat in the annual 'mini-budget' negotiations on how to allocate the money in the indexation fund. This credit claiming opportunity alongside the rare opportunity of 'free' financing seems to outstrip the political costs associated with supporting the indexation and all parties thus have strong incentives to support and maintain the indexation scheme with the effect that the indexation of benefits has remained essentially unchanged and politically unchallenged since 1991 (Green-Pedersen et al., 2012: 139).

The 2012 tax reform, the latest in what has become a 'permanent tax reform' since the mid-1980s in Danish politics, however ended the political stability guarding the indexation scheme. In a compromise between the new Centre-Left government (2011-) and the major parties of the bourgeois opposition, it was decided to suspend the wage indexation of benefits in the period 2016-2023 to finance tax cuts for people in employment. Financing tax cuts through less generous indexation of benefits has been proposed before by a smaller right-wing group inside the Liberal Party (*Venstre*) under the former Centre-Right government, but was quickly dismissed by the party leadership as a radical idea at the time. It nevertheless resurfaced in the 2012 tax reform with the consequence that the yearly indexation of benefits[5] are deducted 0.3% in 2016, 0.4% in 2017 and 0.75% between 2018 and 2023. As the yearly calculation of benefits is based on the benefit level of the previous year the effect will accumulate over time and amounts to 5.1 percentage points over the period with an expected long-term saving of 4.8% (Regeringen, 2012). In effect, the tax reform thus implies that wage indexation has been replaced with price indexation from 2016 to 2023 with the effect that benefits will decrease relative to wages in the foreseeable future. The long-term political repercussions of this decision are still uncertain. As Sweden in the 1990s, new and tighter budget rules have been introduced with effect from 2014 in line with the Danish adoption of the European Fiscal Compact. In contrast to the Swedish budget caps, which cover all public expenditures except interest rates on the public debt, business cycle related benefits such as unemployment benefits are exempted from regulation under the Danish budget caps. Despite the difference in implementation the Swedish experience nevertheless indicate that restoring wage indexation of benefits in the future may face greater political and economic obstacles as a consequence of the new principles for governing public finances.

5.3 Partial privatization: From earnings-related income protection to basic security

In this section we show how the policy changes reviewed have impacted the level of income replacement offered in the public insurance. Both the Danish and Swedish unemployment insurance scheme continues to provide comparatively generous income protection for low-earners, yet although earnings-related in principle the declining compensation offered to average and high earners implies that the unemployment insurance in both countries increasingly have become a low-level flat rate scheme providing only basic security for the vast share of the employed. The outcome of this gradual change towards a 'basic security model' (Korpi and Palme, 2003) of unemployment protection has been a partial privatization of risk-protection as earnings-related benefits now exclusively applies to low wage-earners implying that average and high earners increasingly have to rely on supplementary sources of income in the event of unemployment.

Replacement rates are generally conceived as the 'gold standard' when comparing the generosity of social rights across time and countries (e.g. Scruggs, 2007). Figure 2 and 3 depicts changes in both gross replacement rates from 1990 to 2011 and net replacement rates from 1990 to 2009 in order to measure both the direct effect of the reviewed policy chang-

[5] Except for old-age pension where the saved amount is allocated to the means-tested supplement to the old-age pension.

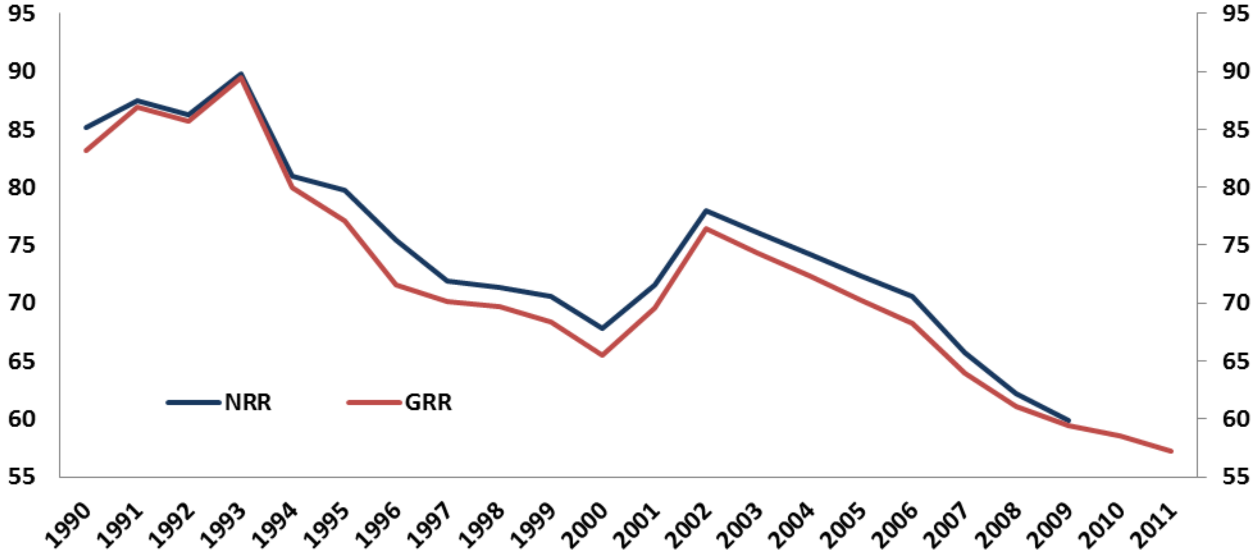
es as well as the combined impact on ‘take home pay’ of changes made to tax-benefit system during the period.

While having the most dramatic impact in Sweden, the drift of benefit ceilings relative to wages is visible in both countries during the period. The large fluctuations in both net and gross replacement rates in Sweden display the changes of both the maximum ceiling and the maximum replacement rate during the period, yet the overall tendency has been that of substantial declines in benefit generosity.

Prior to the abolishment of automatic indexation in Sweden the net replacement rate of average earners more or less corresponded to the maximum replacement rate of 90% stipulated in the insurance whereas by 2009 it had dropped to below 60% of former wage. Comparing the maximum yearly benefit ceiling to average wages over time reveals much the same development. Where the maximum ceiling in 1990 corresponded to some 83% of the average wage unemployment benefits covered 57% in 2011. Despite the decline in compensation among average wage earners the gross and net replacement rate of low paid workers with an income of 75% of the average wage was in 2009 and 2011 still around the formal maximum rate of 80%.

Albeit sensitive to the composition of claimants over time, the sharp increase in the share of unemployed receiving the maximum amount since the late 1990s further underlines the gradual drift to a flat-rate system of unemployment insurance in Sweden. Between 2010 and 2013 89% of benefit claimants who previously worked full-time received less than 80% of previous income in unemployment compensation. This is to be compared with around 50% after the cuts introduced in 2007, 40% after benefits were raised in 1998 and 25% after the maximum ceiling was raised in 2002 (SO, 2013). The increasing homogenization of the two-tiered unemployment insurance comprising a basic allowance for unemployed not belonging to unemployment funds and an earnings-related benefit for fund members also points to the de facto abolishment of ‘earnings-relatedness’ in the Swedish insurance. In 1990 the basic amount corresponded to around a third of the maximum ceiling whereas it now makes up half of the maximum ceiling after the ‘increased maximum amount’ was scrapped in 2007. Combined with the regressive replacement rate the different benefit levels applying to claimants of earnings-related benefits and the basic unemployment benefit have thus converged in the period (Sjöberg, 2011: 223).

Figure 2: Change in gross and net replacement rates, 1990-2009 (2011), Sweden.

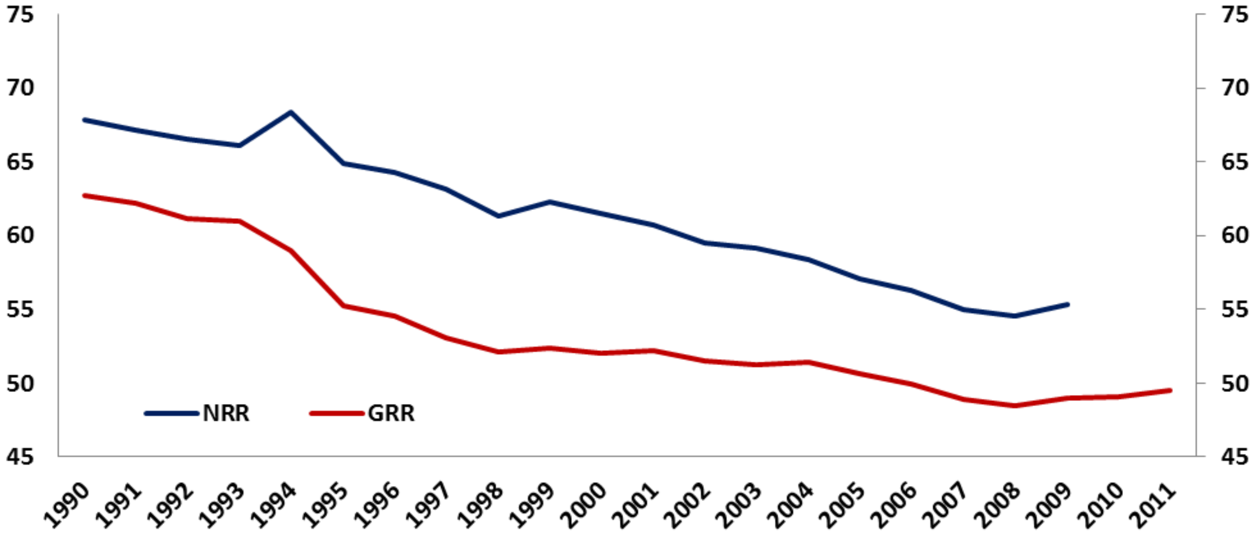


Notes: Replacement rates during the first six months of unemployment for an Average Production Worker (APW) with no children. APW and GRR for 2010 and 2011 are calculated from OECD Tax-Benefit Model following Van Vliet and Caminada (2012). For general info on methodology see Van Vliet and Caminada (2012) and Scruggs (2005).
Source: Van Vliet and Caminada (2012) and OECD Tax-Benefit Model.

As the formal maximum replacement rate of 90% has been maintained through the period and as benefits have been tied to wages, the 'decremental' development has been less dramatic in Denmark. However, also the Danish case displays a pronounced long-term trend towards less generous unemployment protection. The net replacement rate has steadily decreased over time from 68% in 1990 to around 55% in 2009. The drop in the maximum amount relative to wages, which in 2011 covered around half of former wage compared to 63% in 1990, displays the direct effect of the changed indexation on benefit levels. As in the Swedish case, low-wage earners are still subject to a relatively generous compensation in the event of unemployment despite a considerable decline in compensation levels for this group during the last decades. Where the net replacement rate for unemployed with 75% of the average wage was around 90 in the early 1990s it has fallen to 74% in 2009 and gross compensation declined even more from 84% in 1990 to 65% in 2011.

The gradual hollowing out of benefit generosity is also clear from the rising share of claimants who receives the maximum amount as well as the increasing number of unemployed who receives less than 90% in net compensation. Where around 35% of benefit claimants received the maximum amount in 1982 the share has continually risen over time to 78% in 1990 and 85% in 2008 (Direktoratet for Arbejdsløshedsforsikringen, 1983, 1990; Labour Market Commission, 2009: 106). The share of claimants with net replacement rates below 90% has also increased during the 2000s. In 2012 this group constituted 94% of all claimants compared with 91% in 2005 and 81% in 2001. During the same period the share of benefit claimants with net replacement rates below 80% increased from 55% to 80% (Ministry of Business and Growth, 2012). The gradual change towards a flat-rate scheme has further been aided by the introduction of a formal minimum replacement rate of 82 per cent in 1996, which imply that nearly all claimants irrespective of prior earnings now receives the same level of benefits.

Figure 3: Change in gross and net replacement rates, 1990-2009 (2011), Denmark.



Notes: Replacement rates during the first six months of unemployment for an Average Production Worker (APW) with no children. APW and GRR for 2010 and 2011 are calculated from OECD Tax-Benefit Model following Van Vliet and Caminada (2012). For general info on methodology see Van Vliet and Caminada (2012) and Scruggs (2005).
Source: Van Vliet and Caminada (2012) and OECD Tax-Benefit Model.

The drift of benefit levels as well as the politics sparking this development has progressed unevenly in Denmark and Sweden. The 'decremental' development of compensation rates has been most drastic in the Swedish case due to the lacking indexation and cuts in the formal replacement rate, but this should be viewed in relation to the highly generous compensation offered in the Swedish unemployment insurance prior to the 1990s. In the Danish case the generosity of unemployment benefits had already decreased after cuts introduced in the 1980s and as benefits to a greater extent has kept pace with the development of wages since the early 1990s the erosion of benefits has been less dramatic during the 1990s and 2000s. The difference in the intensity of cuts also helps explain the different extent of political contestation in the two cases. In the Danish case the 'under-indexation' of benefits has remained largely uncontested, which contrast with the political development in Sweden where the lack of indexation and derived drop in replacement rates has been subject to intense politicization since the mid-1990s.

While the starting point as well as the preceding developments differs the result of the policy trajectory since the early 1990s have been similar in the two cases; a gradual hollowing out of the economic compensation offered in the public insurance and a derived de facto dismantlement of ‘earnings-relatedness’ for an increasing share of the workforce, who are left to rely on flat-rate benefits on a relative low level.

The outcome of this ‘residualization’ has been an ‘implicit’ and partial privatization of risk-protection where all but low-earners increasingly lacks adequate economic security to an extent where sufficient demand after additional insurance have increased the relevance of other sources of income protection in the event of unemployment.

Chapter 6: Sweden - The layering of union-run group insurances

6.0 Private unemployment insurance in Denmark and Sweden

Two types of private unemployment insurance comprise the lion share of private provision in Denmark and Sweden; mandatory group insurances supplied by trade unions financed through membership fees and voluntary individual insurances typically supplied by trade unions, unemployment funds or insurance companies financed individually. In common for both types of insurance is that they provide compensation above the maximum ceiling in the public insurance and that coverage is conditional upon membership of the public insurance. In both countries other types of supplementary insurance is available. In Sweden additional types of collectively bargained supplementary insurances (*Omställlnings- og tryghetsavtaler*) have been available to the unemployed since 1972. Type of benefit, the conditions for receipt and coverage varies by sector, industry and tenure. In total these schemes cover some 75% of all employees in the labour market (See Edelbalk and Wadensjö, 1989; Sjögren Linquist and Wadensjö, 2005, 2006, 2011 for comprehensive reviews). In Denmark a similar scheme has recently been introduced in the collective agreements but coverage remains marginal. A related type of supplementary unemployment insurance is mortgage protection policies typically available through financial institutions. These insurances allow individuals to take out insurance to cover mortgage repayments when unemployed and can in Sweden be joined independent of fund membership. This type is of recent origin and coverage is thus asserted to be limited.

The following sections focus on the two basic types of private provision outlined above; mandatory group insurances and voluntary individual insurances. We focus on the largest providers and the most prominent types of schemes within the two categories. The following sections track the development of the different private schemes in Sweden and Denmark and the politics surrounding this development. Following Ebbinghaus (2011) four questions related to the provision, finance and regulation of private benefits guides the description and analysis. 'What kind of benefits?' describes the specific rules pertaining to private insurance schemes and compare these to the rules of the public unemployment insurance. 'Who is covered' analyses the development in relation to the coverage by private schemes. 'Who pays?' looks at how benefits are financed and issues related to the taxation private schemes. The key dimension in this regard is to what extent premiums conform to the actuarial principles of reciprocity between the expected loss of individuals and the size of individual contributions. Finally, ‘who governs?’ describes how provision is organised.

6.1 Sweden: what kind of benefits?

Three types of private unemployment insurance exist in Sweden. The most prominent type is mandatory ‘group income insurances’ provided by unions to active members of both unions and the associated unemployment fund and integrated into the union membership. Unions further supply members the option of taking out individual supplementary insurances to top up or extend the duration period of the mandatory group insurance. This type of ‘extended individual insurance’ can also be taken out from insurance companies not related to unions. The third type of insurance available is voluntary individual insurances that provide economic compensation above the maximum ceiling in the public insurance. These are typically taken out directly from insurance companies.

In common for all types of insurances is that they conform to the public insurance, provide economic compensation above the maximum ceiling in the public unemployment insurance, requires membership of an unemployment fund and that eligibility requires claimants to be eligible for public unemployment benefits.

6.1.1 Individual insurances

The Swedish market for private unemployment insurances was founded in 1998 when the commercial insurance company Accept introduced the first type of individual insurance to top up unemployment benefits (Ds, 1999: 60). In 2000 the Swedish Confederation of Professional Associations (SACO) launched their own individual unemployment insurance scheme restricted to members of SACO-unions and the Unemployment Fund for Graduates in Sweden (AEA). By 2013 there are four main providers of individual insurances; Accept (1998[6]) SACO Salusansvar AB (2000); Solid försäkringar (2008) and Jobgarannt (2012).

Individual insurances provide 80% of former income up to a maximum ceiling ranging between 50.000 SEK and 160.000 SEK the first 200 days and 70% hereafter. Except for the individual insurance of SACO the number of waiting days is similar to those found in the public insurance. The duration period range between 132 days and the maximum duration period of 300 days found in the public insurance. In order to qualify for insurance claimants both have to meet an employment condition of 6-12 months regular employ-

[6] E. N. Försäkring merged with Accept in April 2012.

ment of 80 hours per month and have paid into the insurance between 7-18 months. The employment condition in the public insurance requires either 6 months of employment with 80 hours per month during the last 12 months or 50 hours of work every month during the last 12 months and the membership condition stipulates 12 months of fund membership.

Individual insurances can typically be taken by persons between the age of 21 and 60 and provides coverage until the age of 60-64. This is to be compared with a maximum entry age of 64 and qualifying age of 65 in the public insurance.

Compared to the conditions applying to the first types of individual insurances both the qualification and the waiting period have generally been reduced. The largest provider Accept for instance had a waiting period of 40 days in 1998 and 25[7] days in 2004 (Ds, 1999: 60; IAF, 2004: 24) and a qualification period of two years in 1998.

Figure 4: Overview of individual insurances, 2013.

	Accept	SACO	Solid	Jobgarannt
Waiting days	7	20	7	7
Qualification	**Employment:** 12 months **Membership:** 12 months	**Employment:** 12 months **Membership:** 18 months	**Employment:** 7 months **Membership:** 7 months	**Employment:** 6 months **Membership:** 12 months
Duration	1-300 days	1-240 days	1-300 day	1-132/264 days
Ceiling	50.000 SEK	50.000 SEK	60.000 SEK	160.000 SEK
Age	Entry: 21-54 Coverage: until 62	Entry: 21-60 Coverage: until 62	Entry: 20-57 Coverage: until 58	Entry: 18-60 Coverage: until 64

Source: Insurance terms accessible from websites of insurance companies.

6.1.2 Group insurances

Mandatory group insurances organised by unions comprise the majority of the Swedish market for private unemployment insurances. The first group insurance scheme was launched by the largest union under TCO, Sif, in 2001 and by 2007 group insurance schemes had spread to all three main confederations.

[7] 20 days after the 5 day waiting period stipulated in the public insurance.

Group insurances cover all active members of unions and the associated unemployment fund. In all schemes the waiting period conforms to the public insurance and except for some SACO-unions with group schemes organised through SACO Salusansvar and the insurance offered by the largest union under TCO, Unionen, qualification for disbursements requires 12 months of fulltime work corresponding to 80 hours per month within a reference period of 18 months and 12 months of union membership. Group schemes covering SACO-unions provides benefits of 80% of current wage up to a monthly ceiling of 50.000-80.000 SEK except for three unions where the ceiling amounts to 100.000 SEK. The duration period is generally between 120-140 days except for the Teachers Unions' (*Lärarförbundet*) group insurance which provides 200 days of coverage. Except for two unions with age limits of 64 and 65 coverage is provided until the insured reach the age of 62. In the group insurances of LO-unions the maximum ceiling is typically 35.000 SEK. However, in some of the schemes no maximum ceiling applies. Age limits for entry and coverage follows those of the public insurance.

Conditions in the group insurances have generally been made less strict since the first schemes were launched. Age limits have been raised from typically around 58 in 2003-2004 to 62-64 in schemes under SACO and TCO and in the largest scheme within TCO the maximum ceiling has been raised from 36.000 SEK to 60.000 SEK (IAF, 2004, 2010).

Figure 5: Overview of group insurances supplied by unions under SACO, TCO and LO, 2013.

	SACO	TCO	LO
Waiting days	7	7	7
Qualification	**Employment:** 12 months **Membership:** 12-18 months	**Employment:** 12 months **Membership:** 12-18 months	**Employment:** 12 months **Membership:** 12 months
Duration	120-200 days	100-200 days	100-200 days
Ceiling	50.000 – 100.000 SEK	60.000 – 100.000 SEK	35.000 SEK
Age	Entry: 21-60 Coverage: until 65	Entry: before 64 Coverage: until 65	Entry: 21-64 Coverage: until 65

Source: Insurance terms accessible from websites of insurance companies and trade unions.

6.1.3 Supplementary individual insurances

Supplementary individual insurances extend the insurance coverage provided by group insurances either by raising the maximum ceiling or by prolonging the maximum duration period. In some schemes the extended period covers the gap between the duration period of the group insurance and the maximum period for receiving public unemployment insurance while in others total period of coverage is below 300 days. No waiting period applies in neither of the supplementary insurances and conditions related age, work and membership is the same as found in the group insurances. The extended insurance supplied by SACO Salusansvar is equal to the individual insurance except for the waiting period. Supplementary insurances under TCO offer members 50-180 days of additional coverage and some further provides a higher maximum ceiling during the additional days of coverage varying between 100.000-150.000 SEK. The supplementary insurances of Accept and Solid Försäkringar give the insured the possibility of extending coverage by a maximum of 200 days with a maximum ceiling of 60.000-80.000 SEK.

Figure 6: Overview of individual supplementary insurances, 2013.

	SACO	TCO	Non-union
Duration	Maximum of 120 extra days	Maximum of 50-180 extra days	Maximum of 200 extra days
Ceiling	50.000 SEK	100.000-150.000 SEK	60.000-80.000 SEK

Note: Non-union includes Accept and Solid Försäkringar.
Source: Insurance terms accessible from websites of insurance companies and trade unions.

6.3 Sweden: Who is covered?

In the decade following the introduction of first group insurance scheme the number of persons covered by group insurances has risen from below 200.000 to more than 1.8[8] million. Union members covered by group schemes now make up more than half of unemployment fund members more than one third of the Swedish workforce. These numbers are to be compared with 4.2% of the workforce and 5.1% of fund members in 2002. The increase has occurred in two waves; one prior to the Centre-Right election win in 2006 where unions belonging to TCO and SACO started supplying members with such insurances and one beginning in 2007 where LO-unions decided to introduce group insurance schemes. 34 out of 52 unions under the peak associations were operating group insurance schemes by the end of 2012 compared to 3 out 59 in 2003. This corresponds to that 2.25 million active union members associated with the three peak associations in 2012 were members of unions operating group insurance schemes. As noted earlier the primary reasons for the difference between active members of unions with group insurance schemes

[8] The group insurance schemes of the National Union of Teachers (*Lärarnas Riksförbund*) provided by Svenska lärarförsäkringar AB and the Swedish Association of School Principals and Directors of Education (*Sveriges Skolledarförbund*) provided by If insurance company are not included. Total active membership amounted to 63.304 in 2012.

and the actual number of insured is that not all active members belong to an insurance fund or have wages above the maximum ceiling.

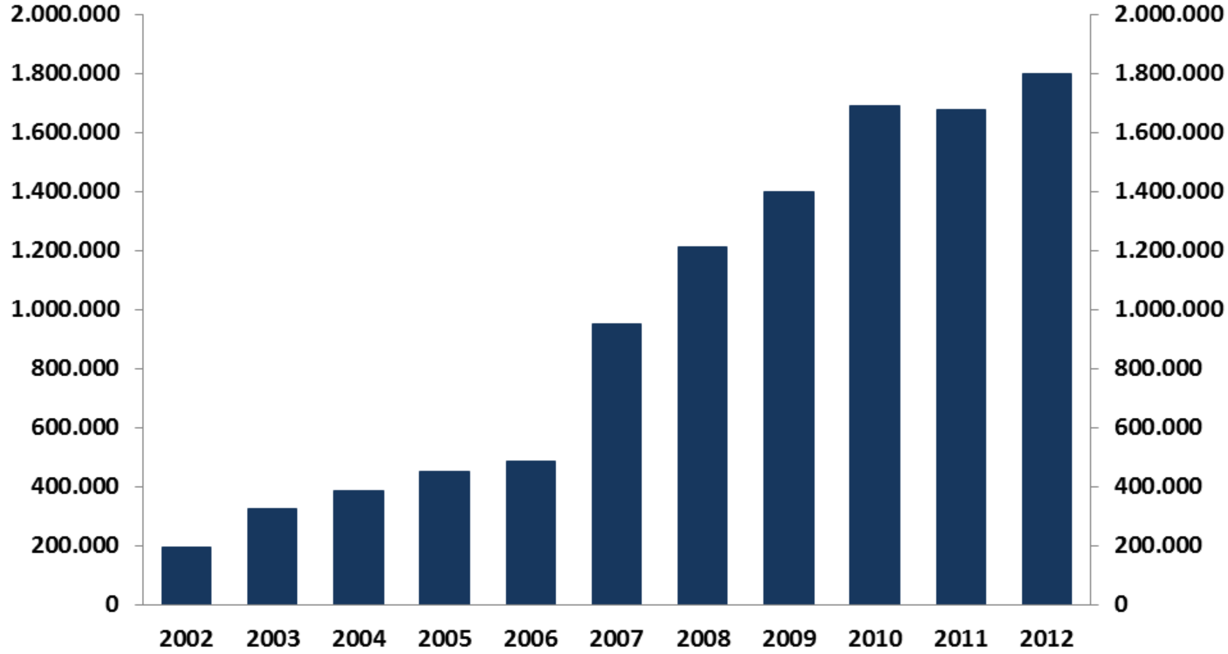
Despite the considerable rise in the overall number of insured as well as the number of active members in unions with group schemes coverage varies between the three peak associations. Among SACO-unions coverage has risen continually since 2003. By 2012 17 out 22 unions supplied group insurances covering more than nine out ten active union members.

The same holds for TCO where near universal coverage was reached in 2010 with more than 96% of active members belonging to unions supplying group schemes. In contrast to the high coverage found in white-collar and professional unions the share of active LO-members in unions providing collective insurance schemes peaked in 2009 with around 68%. After the group insurance schemes provided by Swedish Union of Construction Workers (*Byggnadsarbetareförbundet*) and Swedish Painters´ Union (*Målareförbundet*) was discontinued by the end of 2010 the number of active LO-members with access to complementary insurance has declined to 66% in 2011-2012.

The rise in group insured members in unions under TCO and SACO is further underlined by the growing share of unemployment fund members covered by group insurances. The number of insured SACO-members in SACO Salusansvar constitutes around 57% of members of the Unemployment Fund for Graduates in Sweden[9] (AEA) compared to around 25% in 2003 when the first group insurance schemes were launched by SACO-unions. The same development can be seen in the largest TCO-scheme organised by Unionen. By 2012 three out of four fund members had access to additional economic compensation compared to 57% in 2003.

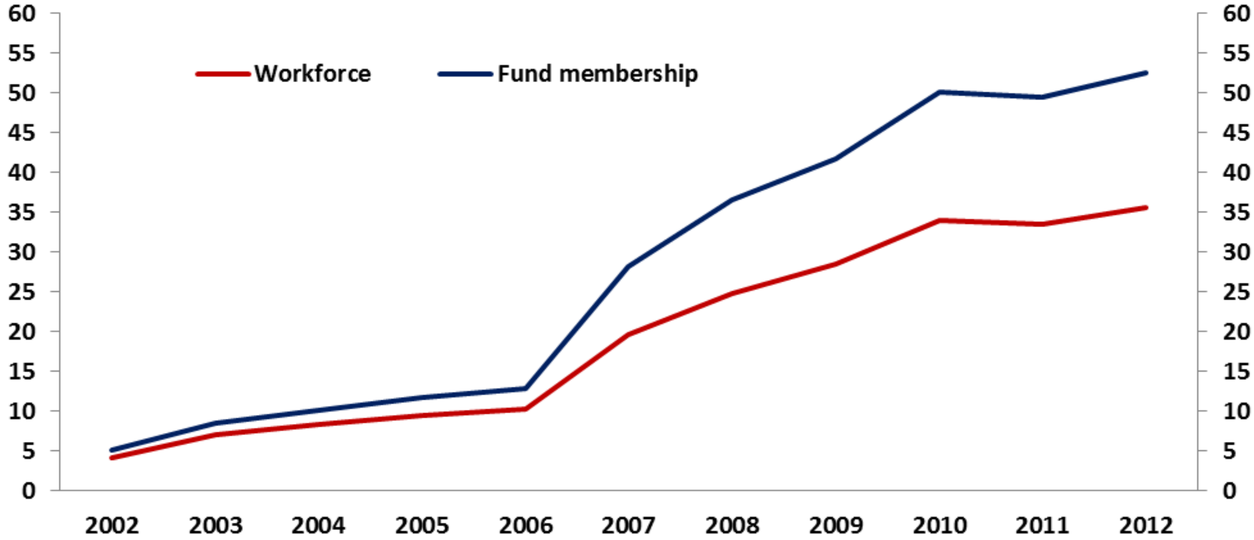
[9] Three unions belonging to AEA have not organised group insurance through SACO Salusansvar and the share of members with group insurance are thus higher than reported here.

Figure 7: Total number of insured in union-run group insurance schemes, 2002-2012.



Note: Data covers the number of insured in group schemes provided by SACO Salusansvar, Folksam/Förenade Liv, Bliwa and Sif/Unionen Medlemsförsäkring.
Source: Annual reports of Saco Salusansvar AB, Bliwa skadesföräkring AB, Sif/Unionen Medlemsförsäkring AB, data supplied by Folksam for Folksam and Förenade Liv and Sjögren Lindquist and Wadensjö, 2011: 46-47.

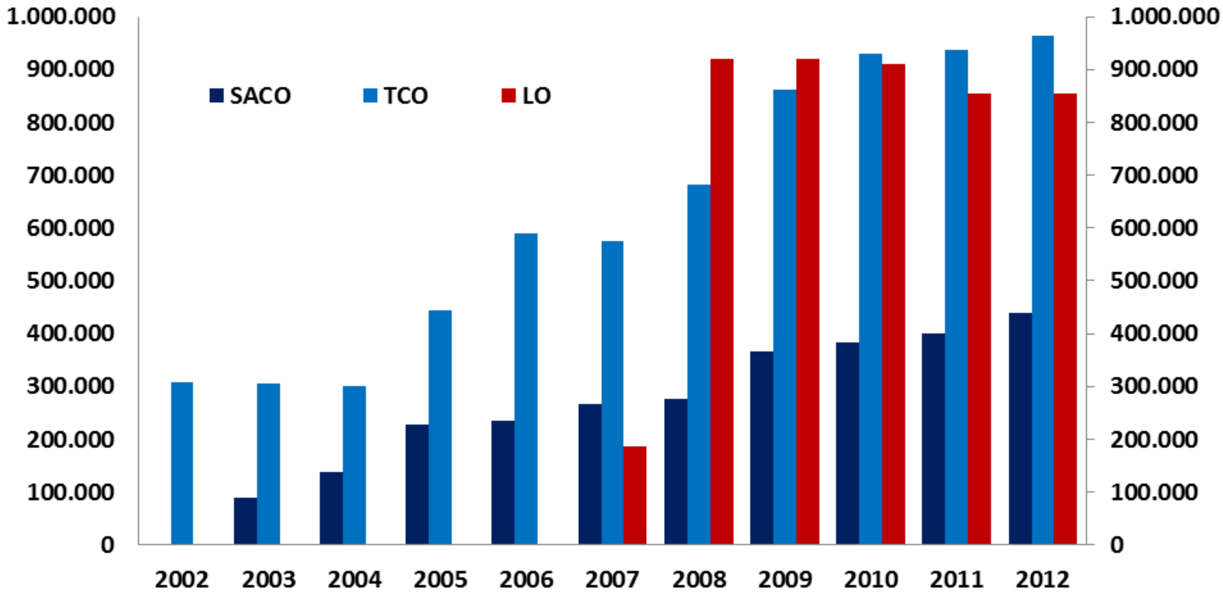
Figure 8: Group insured as share of workforce and fund membership, 2002-2012.



Note: Group insured as share of workforce and membership of unemployment funds. Data covers the number of insured in group schemes provided by SACO Salusansvar, Folksam/Förenade Liv, Bliwa and Sif/Unionen Medlemsförsäkring. Workforce refers to the number of employed and unemployed persons between 15-74 years.
Source: The Swedish Unemployment Insurance Board (IAF), Statistics Sweden, annual reports of Saco Salusansvar AB, Bliwa skadesföräkring AB, Sif/Unionen Medlemsförsäkring AB, data supplied by Folksam for Folksam and Förenade Liv and Sjögren Lindquist and Wadensjö, 2011: 46-47.

No comprehensive data exist on the number of individual insurances taken out through the period. Estimates suggest that around 100.000 were covered by such schemes in 2009 (Folksam, 2013: 22). The decreasing number of individual insurances taken out from SACO Salusansvar however indicates that the prevalence of group schemes have had a strong crowding effect on this type of insurance. After peaking in 2002 with around 10.000 insured the number of individually insured has dropped to 550 in 2012. The share of group insured in SACO Salusansvar and Unionen Inkomstförsäkring who had taken out an individual supplementary insurance has almost doubled from 5.4% in 2007 to 10% in 2012, which signal that individual insurances have increasingly been replaced with individual insurances to complement the mandatory group schemes. In the latter case more than 13% now have access to both group insurance schemes provided by the union and complementary insurance. This amount to that around 78.000 of group insured members of SACO and Unionen had chosen to take out additional insurance in 2012 up from 25.000 in 2007.

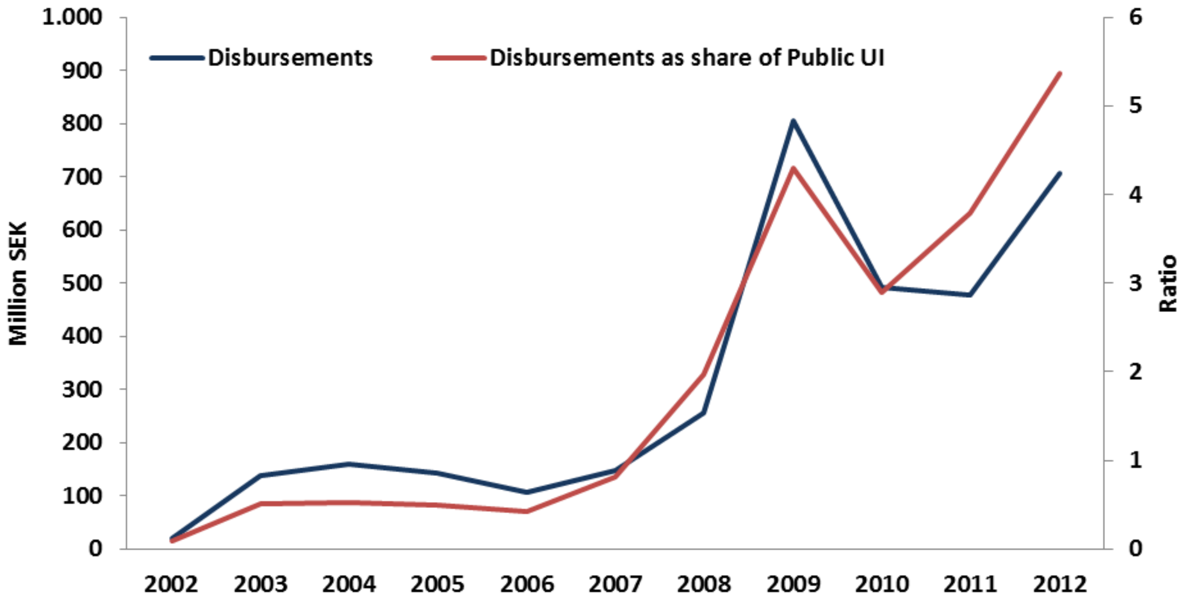
Figure 9: Active members in unions operating group insurance schemes, TCO, LO and SACO associated unions, 2002-2012.



Note:. Membership data covers the number of active members by 31 December between 2002 and 2012 for LO and SACO and between 2002 and 2006 (2012) for TCO. Data for TCO between 2007 and 2011 are based on the average number of active members in fourth quarter. Data refer to the number of active members in the introduction year of group schemes. During the period there have been union mergers in relation to two TCO affiliated unions and two SACO affiliated unions with group schemes. The group insurance schemes of the Swedish Union of Construction Workers (Byggnadsarbetareförbundet) and Swedish Painters´ Union (*Målareförbundet*) was discontinued by October 1 2010 and December 31 2010 respectively, yet members figure in the 2010-account. See appendix for further information.
Source: Sjögren Lindquist and Wadensjö, 2011, Essemyr, 2013; membership database of LO, TCO and SACO.

As a corollary of the large increase in the number of insured total disbursements paid out from private schemes have increased substantially in both nominal terms and as share of yearly expenditures on earnings-related unemployment benefits. Total disbursement rose from around 136 million SEK in 2003 when the first scheme started to pay the first claims to more than 800 million SEK in 2008 and around 700 million SEK in 2012. In the same period the yearly expenditures on earnings-related unemployment benefits dropped by 40% despite that unemployment in 2012 was higher than in 2002. Since 2008 yearly disbursements have averaged 3.7% of the yearly costs of earnings-related benefits. The relatively low level of disbursements compared to the share of fund members enrolled in group insurance schemes reflects the fact that private insurances are designed to provide top-up benefits and the lion-share of economic compensation thus derives from the public insurance. In addition, as a number of private schemes have been launched within the last couple of years a large share of insured have not yet qualified for disbursements. An additional reason given for the relatively low level of disbursements is the lack of awareness among union-members on the fact that they are covered by complementary insurances (Swedish Fiscal Policy Council, 2010: 275-277).

Figure 10: Disbursements from private insurances, 2002-2012.



Note: Total yearly disbursements from individual, collective and extended insurances. Public UI refers to earnings-related unemployment benefits. Data from Accept and E.N. Försäkring is not included and data from 2002-2008 and thus diverge from the data supplied by Sjögren Lindquist and Wadensjö (2011).
Source: The Swedish Unemployment Insurance Board (IAF), Annual reports of Saco Salusansvar AB, Bliwa skadesföräkring AB, Sif/Unionen Medlemsförsäkring AB, data supplied by Folksam for Folksam and Förenade Liv and Sjögren Lindquist and Wadensjö, 2011: 46.

6.4 Sweden: Who pays?

All types of private unemployment insurances are paid for individually either through union membership fees or through individual premiums. Premiums are risk-rated at the general level in the sense that disbursements are exclusively financed by members of the insurance pool and premiums thus vary according to the unemployment rate. This contrasts with the public insurance where contributions are only partially related to the unemployment rate in each unemployment fund as a ceiling applies to the maximum monthly increase in member contributions implying that the 'marginal risk of unemployment' is not exclusively carried by members of the unemployment insurance (Goul Andersen, 2012a: 175).

Premiums found in individual insurances come closest to the actuarial principle as they rely on a wider range of individual characteristics in order to calculate premiums and consequently premiums are more differentiated between risk-classes. Premiums in the individual insurances supplied by Accept are calculated from information on a range of individual characteristics such as educational attainment, citizenship, fund membership, age, geographical location and wage level whereas premiums in the other individual insurance schemes vary either with the wage level, fund association or a combination of these (Eriksson and Segerfeldt, 2011: 20).

In group insurances premiums are 'hidden' as they are a part of the general union membership fee, which typically vary according to wage level, membership status and geography. Whether or to what extent premiums paid into the insurance vary in accordance with membership fees is unknown. The limited information available on premiums indicate that these are uniform within unions, slightly differentiated across unions belonging to the same main confederation and more differentiated between unions belonging to different confederations (Sjögren Lindquist and Wadensjö, 2006: 57-72; Eriksson and Segerfeldt, 2011: 27). Thus, premiums are risk-rated yet in contrast to individual insurances these are set according to group-risks instead of individual risks.

The link between individual risks and size of premiums in group insurance schemes is further weakened by the risk-sharing found in group schemes due to mandatory participation and the organisation of group schemes as pay-as-you-go systems. Broader risk pooling ensures that individual contributions are less determined by individual risk-profiles and further generates lower premiums for all participations compared to individual insurance schemes. The extent of risk-pooling in group schemes is further aided by the 'concentrated' character of Swedish trade unions which refer to the low number of unions and the large average membership size of these as well as the dominance of 'industrial unionism' with unions organised according to industry rather than trade (Kjellberg, 2000: 614-616).

Group insurances function as pay-as-you-go[10] schemes where members qualify by contributing to the insurance fund for typically 12-18 months in return for a 'defined benefit', i.e. defined drawing rights from the insurance when unemployed. Organising insurance according to this principle imply a weakening of the link between contributions and claims on the individual level as individuals who over time qualify and re-qualify for disbursements can draw from the insurance independently from the total size of individual contributions paid. Self-financed schemes are however still subject to balancing total claims and

[10] As insurance companies are subject to regulation in relation to reserves and solvency the group insurances are partially funded and therefore not 'pure' pay-as-you-go schemes.

total contributions in order to be sustainable. Thus, actuarial principles apply on the general level, but not on the level of the individual.

Since private insurances were first introduced the practise of insurance companies have been to exempt disbursements from taxation as conditions stipulates that net disbursements equals 80% of former wage with a maximum ceiling. However, as the legal basis for this practise was unclear unions decided to bring the issue to the Committee on Tax Law (*Skatterättsnämnden*), which in 2006 confirmed that disbursements were not subject to taxation. The Swedish Tax Agency (*Skatteverket*) appealed the ruling to the Supreme Administrative Court (*Regeringsrätten*) in 2007 on the grounds that the taxation of private unemployment insurances was to be put on equal footing with the taxation rules applying to the public unemployment insurance which is subject to regular income taxation. The administrative court verified that disbursements were not subject to taxation and should thus be regarded as tax free income. In relation to premiums the ruling stated that premiums for the group insurances were subject to the tax deduction rules applying to union membership fees while no tax deduction rights applied to premiums on individual insurances (RÅ 2007 ref. 25). From 2003 to 2007 a tax deduction of 25% and 40% applied to union membership fees and unemployment fund fees respectively (Prop. 2001/02:36) corresponding to an average annual tax expenditure of 2 billion SEK for union fees and 1.6 billion SEK for fund fees during the period (Statistics Sweden).

As the premiums going into the group insurance schemes are integrated into the union membership fee and as disbursements are exempted from taxation, group insurances have benefitted from tax subsidies applying to both inputs (premiums) and outputs (disbursements) in the period 2001-2008. These rules diverge from the tax rules applying to both individual insurances and the public unemployment insurance. In the former case no tax deduction rights have applied to premiums and in the latter case tax deductions ceased to exist from 2008 while benefits remains subject to regular income taxation, which including social contributions amounts to around 26%. Thus group insurances have not only benefitted from asymmetrical taxation of premiums and disbursements, but have further benefitted from preferential tax treatment relative to individual insurances and the public unemployment insurance. The abolishment of tax deduction rights with effect from 2008 imply that all types of private insurances are now subject to the same taxation rules, yet the preferential tax treatment of private insurances relative the public unemployment insurance are still in place.

The public subsidisation of private unemployment insurances through the tax system falls under the headline of fiscal welfare as tax regulation of private unemployment insurances are neither neutral to public budgets nor similar to the taxation rules applying to the public unemployment insurance. The favourable tax treatment of private unemployment benefits thus marks are departure from the ‘benchmark tax code’ often used when defining tax expenditures or fiscal welfare[11]. Titmuss (1958) early highlighted how fiscal welfare schemes are often regressive in terms of distribution. This is also the case with tax expenditures related to private unemployment insurances as the value of the tax exemption increases with the wage earned prior to unemployment and thus disproportionally benefit high-earners.

6.5 Who governs?

Five insurance companies dominate the Swedish market for private unemployment insurances. The four largest are either non-profit companies or mutual insurance companies closely tied to trade unions. Accept is the only larger commercial company on the Swedish market and exclusively provides individual insurances. Unionens Medlemsförsäkring, SACO Salusansvar, Bliwa and Folksam are the main providers of group insurances and thus dominate the market for private unemployment insurance in Sweden. The former two are owned and managed by unions and the latter two have strong ties to the trade union movement. The key actors on the Swedish insurance market can thus be characterised as ‘labour market related non-life insurance companies’ specialised in providing group based unemployment insurances and are typically run on a non-profit basis either generally or in relation to the particular unemployment insurance scheme.

Folksam and Bliwa are both mutual insurance companies owned by its policyholders, which imply that profits earned are rebated to policyholders in the form of dividend distributions, reduced future premiums or improved conditions. Bliwa is owned by a subsidiary of Folksam, Förenade Liv, and cooperates with Folksam on unemployment insurances. Unemployment insurances are organised in a non-life insurance subsidiary company, Bliwa Skadeförsäkring, which exclusively supply group insurances to white-collar trade unions and Swedish firms. Folksam is among the largest insurance companies in Sweden and has its origins in the cooperative movement and the trade union movement. The compa-

[11] Definitions and measurements of fiscal welfare and tax expenditures abound. See OECD (2010) for overview and discussion.

ny is still closely linked to trade union movement with board representatives from LO and TCO. TCO-unions are likewise represented at the board of Bliwa.

SACO Salusansvar is a private limited company jointly owned by the 25 member unions of SACO and was established in 2000 with the purpose of supplying first individual unemployment insurances and later group insurances to SACO-members. The public limited insurance company Salusansvar owns 49% of the company. The company is run on a non-profit basis and designed to break-even implying that any profits made are returned to policyholders through better conditions or lower premiums. Unionen Medlemsförsäkring is a private limited company owned and managed by the largest white-collar union in Sweden, Unionen. The sole purpose of the company is to supply members of Unionen with group insurances and supplementary individual insurances in the event of unemployment. As regards SACO Salusansvar the company is run on non-profit basis and profits made are thus used on either improving the conditions in the insurances offered or used as reserves for future claims. As both SACO Salusansvar and Unionen Medlemsförsäkring operates on a non-profit basis and are both owned and managed by trade unions the organisational structure bear resemblance that of the mutual benefit societies which organised welfare provision prior to public involvement.

6.5 Sweden: Policy change without legislative change

Proposals to expand the role of private insurances were first introduced by the Lindbeck-commission in the wake of the deep economic crisis that hit Sweden in the early 1990s. According to the commission's proposals future reforms of social insurance should be guided by the principle of 'co-insurance', i.e. splitting and spreading risks among different parties in order to introduce more clearly defined insurance principles. In continuation hereof benefit levels should be reduced as the existence of generous benefits implies 'that voluntary group insurance or individual insurance becomes superfluous for the majority' (Lindbeck et al., 1993: 238). The commission further proposed that the financial responsibility for the social insurance system should be moved from the central government budget. Instead public funds or private insurance companies should be given the task to organise insurance allowing competition and freedom of choice between insurance providers (Lindbeck et al. 1994: 213-214).

The proposals of the commission served as an overture to the major overhauling of the unemployment insurance initiated by the Centre-Right government in 1993. A key aspect of the reform was the proposal to end union administration of the unemployment insurance by abolishing the membership condition for unemployment benefits and allowing other actors, such as private insurance companies, to supply unemployment benefits (Sjöberg, 2011: 218). According to the Secretary General of the Moderate party, Gunnar Hökmark, the idea behind the proposal was not only to make unemployment insurance mandatory but also to 'allow larger room for voluntary supplementary insurances' (Dagens Nyheter, June 24, 1993). Yet, the governments' attempt to end union-monopoly and introduce private insurance failed to materialise as the Social Democratss who had been staunch opponents of the proposal, repealed it after regaining power in 1994 (Davidsson, 2011: 149-151). The administration of the public insurance has been a political battlefield ever since but contrary to the policy stance of the Social Democratic government private provision became of increasing relevance the following years.

The introduction of private unemployment insurances in 1998 was a central concern for the Social Democratic government when they proposed to raise the maximum ceiling the following year. According to government it was 'extremely important' to make the public insurance more generous 'in order to counteract the spread of private insurances available exclusively to the well-off on the labour market'. The alternative to improving the public insurance would be a further spread of private insurances, which 'would risk the future will to finance the public insurance and lower people's faith in the public insurance' (Prop.1999/2000:139).

Contrasting the ambitions of the governments the raise in the ceiling was accompanied by an announcement from SACO stating that a new supplementary insurance would be introduced by late 2000 through a newly established insurance company, SACO SalusAnsvarFörsäkring AB (EIROnline, 2000) In addition, the other white-collar peak association The Swedish Confederation of Professional Employees (TCO) signalled that they were probing for a similar insurance solution and had already started negotiations with Folksam (Sydsvenskan, October 23, 2000).

While the Swedish Trade Union Confederation (LO) acknowledged the need for higher levels of compensation among high-earners the spread of private schemes 'was fundamentally wrong as the introduction of private insurances is an acceptance of the low maximum ceiling' and such schemes would therefore 'risk eroding the confidence in the public insurance in the long run' (Sydsvenskan, October 23, 2000). Despite the protests from LO the largest union under TCO, Sif, followed up by launching the first mandatory group insurance in 2001 financed via membership fees. As in the case of SACO the union chose to set up their own non-profit insurance company, Sif Medlemsförsäkring, to supply both group insurance for all active union and fund members with an income above the maximum ceiling as well as an individual supplementary insurance for high-earners in need of additional coverage.

The first collective insurance had proven to be a powerful tool for recruiting members and high demand for additional coverage combined with less restrictive conditions in the collective insurance made it an attractive option for both SACO and TCO unions. Although all peak associations agreed on the need for improving the public insurance LO stood alone in their critique of the new private schemes and as unemployment among academics reached record high levels in 2003 the first unions under SACO decided to follow in the steps of Sif and introduce group insurance for their members. By the end of 2004 seven unions under TCO and SACO had chosen to include group insurance in the union membership. Despite the rapid spread of private insurances the government continued to restate the ambition that 'social insurance must be maintained as a protection against loss of income. The level of level of compensation should provide real protection for most insured and not only a basic protection that requires private supplementary insurance' (Dir. 2004: 129). Yet, five more unions under SACO and TCO jumped on the bandwagon in 2005 and 2006 and about half of the total active members in the two main confederations were now members of unions supplying collective insurance.

The question of whether to introduce mandatory group insurances had divided unions, and due to a strong ideological opposition to private schemes LO remained the only main confederation without member unions offering private insurances by 2006. Yet, the Social Democratic defeat in the 2006-elections and the subsequent reform of the unemployment insurance led LO to rethink their position. By the spring of 2007 a general agreement between LO and Folksam was reached on the principles for introducing group insurances in LO-unions and by the end of 2008 7 out of 14 LO-unions covering more than 60% of the occupational active LO-members had included mandatory group insurance in the membership. According to the LO leadership the acceptance of private schemes was only considered a temporary and acute solution to counterbalance cuts in unemployment benefits and would be phased-out again after the next election (Sydsvenskan, December 20, 2006).

Reports on the growing number of privately insured became a theme in the intense political debate on the consequences of the cuts introduced in 2007. Trade unions argued that the continuous decrease in the maximum replacement rate had transformed the unemployment insurance into a flat-rate system and thereby allowed room for supplementary insurances to grow (Andersson et al., 2008; TCO, 2010). In a response to the criticism the Conservative Minister of Employment, Sven Otto Litterin, stated that the view of the government was that the public unemployment insurance should only be regarded as basic security, and it was therefore left to the choice of the individual whether to 'top-up' with private supplementary insurance (Davidsson, 2011: 154). He further refused the critique of the governments' cuts on the grounds that the spread of private insurances implied that most unemployed still received 80% of former pay and added that he was 'puzzled' by the fact that some unions had decided against helping their members by refusing to introduce supplementary schemes (LO-tidningen, April 14, 2009). The Prime Minister, Frederik Reinfeldt, has similarly described the increasing number of private insurances as both 'a positive development' (Interpellation 2011/12:360) and 'fair' as the public insurance should only provide basic security for unemployed (Publikt, August 17, 2010).

However, the support of supplementary schemes is not confined to the Centre-Right government. When the Swedish Union of Construction Workers (*Byggnadsarbetareförbundet*) decided to phase out the collective group insurance in place since 2008 this was met by large protests from union members' who at the congress demanded a new scheme to be established (Byggnadsarbetaren July 1, 2010). Another indicator on the effect of the new private schemes is provided in surveys which shows a significant increase in the share of formerly unemployed who believe that the economic compensation is adequate and a corresponding decrease in the share who are dissatisfied with the level of economic compensation when unemployed (Folksam, 2013: 24).

6.6 Sweden: Re-installing earning-relatedness through union-run group insurance

During the last decade union-run group insurance schemes has become a new institutional layer in the Swedish unemployment protection system with more than half of unemployment fund members and more than one-third of the labour force now covered by such schemes. The new private layer is characterised by topping-up the public unemployment insurance and have contributed in re-installing earnings-related benefits for the increasing share of unemployed with wages above the maximum ceiling in the public insurance.

Through their decision to introduce mandatory group insurances financed through union membership fees trade unions have been the key political actor in the layering process in relation to both the growth and the structure of private provision. The layering process has further been aided by the preferential tax treatment of both group insurances relative to individual ones as well as private insurances relative to the public insurance. In addition to the union strategies, issue related to the taxation of private benefits is thus central when understanding not only the growth of private unemployment insurances in Sweden but also the character of these, which confirms Hackers' (2005) thesis regarding the crucial role of tax breaks in stimulating the layering of private supplementary schemes.

Despite the importance of taxation in the development the taxation of private benefits have been subject to relatively little politicisation, which derives from the fact that the preferential tax treatment of private insurances in general and mandatory group insurances in particular are not a result of legislative change, but instead stems from court decisions. Thus, the layering of private schemes has generally proceeded without any legislative change aimed at increasing the attractiveness of private schemes.

The rise of private insurances constitutes a shift in the provision as well as the financing of unemployment protection and thus marks a process towards the 'multipillarization' of unemployment protection. In light of the theoretical framework outlined we may thus speak of 'risk-privatization' at the output level which imply that financial responsibility for providing sufficient income protection in the event of unemployment have been delegated to the individual.

Measured by the outcome dimensions of degree of personal responsibility and degree of actuarial insurance the crowding-in of private provision has a list of distinctive characteristics, which mediates the effects of this shift in the provision and finance of unemployment protection.

First, in the Swedish case private provision is equivalent to mandatory group insurances organised by trade unions. Given the high union density this implies that the responsibility of risk-protection has generally been shifted onto collectives rather than onto individuals. As group insurances are mandatory this allow for greater risk-sharing, which in turn weakens the individual responsibility for financing risk-protection as premiums are both lower and less-likely to reflect the individual risk of the insured compared to how premiums are set in voluntary individual insurances. The pay-as-you-go principle underpinning the insurances further implies that there is no match between claims from and contributions to the insurance on the level of the individual. Thus, the strict actuarial link between individual risk and premiums is weakened in group insurance schemes.

Another effect of the spread of group insurance schemes is that coverage is relatively high. In white-collar and professional unions coverage is close to universal measured by the share of active union members belonging to unions which provide mandatory group insurance. As groups with high risks figure prominently in LO-unions coverage among active LO-members is lower. However, as low-wage groups are still subject to relatively generous protection in the public insurance the lack of coverage is primarily a concern in unions which combines relatively high wages with high risk of unemployment.

An additional factor which serves to underscore the social character of private provision in Sweden is how provision is organised. No commercial insurances are among the main providers of private insurances and the four companies providing group insurances are all either closely link to or owned and administered by trade unions. As they further operate according to non-profit principles either generally or in relation to the specific group scheme the key characteristics of these companies generally resemble those of the mutual benefit societies that predated public social insurance.

The analysis of how private provision is structured in Sweden thus highlight how strong collective intermediaries are able to organise private provision in a collective manner and thereby reduce both the individual financial responsibility and the degree of actuarial principles otherwise associated with processes of 'risk-privatization'. A finding, which highlights the importance of distinguishing between the output and outcome dimensions when assessing processes of 'risk-privatization'.

Chapter 7: Denmark: Fragmented layering

7.0 Denmark: What kind of benefits?

Three types of private unemployment insurance schemes exist in Denmark. The dominant type is voluntary individual insurance typically arranged by unemployment funds and exclusively available to unemployment fund members. One fund further operates a private scheme unrelated to the public insurance only open to employed covered by the stipulations on notice found in the Law on Salaried Employees (*Funktionærloven*) or equivalent regulation found in collective agreements. In addition one union provides a group insurance scheme similar to those characterising the Swedish market, which imply that insurance is mandatory and only available to members of both union and the associated unemployment fund. A smaller unions further runs a collective scheme designed as an economic fund accessible to unemployed members.

In general the Danish insurance schemes have remained much less standardised compared to the schemes found in Sweden. This is both due to the large number of providers in Denmark, the absence of group schemes as well as the freedom of choice for the insured in how to combine the different elements of the insurance, which for instance gives the insured the possibility of choosing between fewer waiting days instead of higher economic compensation when taking out insurance. The wide options of adapting the insurance to individual preferences has become less common in recent years and thus made the insurance schemes more standardised. However, there are still a range of options available for the insured to choose from both within and between the different individual insurance schemes found.

The first type of individual insurance dates back to 1986 where the unemployment fund associated with the business professionals (*Civiløkonomernes A-kasse*) introduced the first supplementary insurance to top-up public unemployment benefits. The insurance was open to active members after a qualification period of 12 months and gave members the opportunity of five different top-up models with a maximum benefit period of 12 months (Arbejdsministeriet et al., 1989). This type of insurance has since come to dominate the Danish market.

Most individual insurances require union membership and membership of the associated unemployment fund. Among the unemployment funds related to The Danish Confederation of Trade Unions (LO) only one fund allow non-union members to take out insurance, which is similar to the funds outside the main confederations. Most funds related to the Confederation of Professionals in Denmark (FTF) and the Danish Confederation of Professional Associations (AC) only require fund membership.

The individual schemes generally provide supplementary insurance 80-90% of former wage with a maximum amount varying from 14.000 to 34.307 DKK per month, which refer to the maximum top-up amount. In the public insurance the formal replacement rate is 90% of former wage. Maximum duration periods are either 6 or 12 months and most schemes stipulates limits for the combined maximum periods, i.e. the combined maximum number of months where claimants can receive disbursements from the insurance. These typically vary from 24 to 36 months or 2 or 3 times the maximum amount of 12 months. The maximum duration period of unemployment benefits is 2 years.

Employment conditions typically vary between 6-18 months with either 16 or 30 hours per week. The period for which the insured has to pay into the scheme before he or she qualifies for disbursements ranges between 6 and 12 months. The longest period is found in LO-funds. This is to be compared with a membership condition of 12 months in the public insurance and an employment condition of 12 months with 37 hours per week within three years.

Age conditions for entry and coverage are similar across individual insurance schemes. Except for two schemes insurance can be taken out for persons between the age of 18-59 and coverage is typically provided until the age of 60. Equivalent rules for entry and coverage in the public insurance is 64 and 65.Waiting periods are less standardised as policyholders can choose between different minimum periods. In most schemes a minimum waiting period of 1 month (30 days) applies, and the longest waiting period is 90 days. Some schemes offer the choice of reducing the waiting period for a higher premium or lower compensation. No waiting periods applies in the public insurance.

Conditions have generally changed little since the first insurance schemes were introduced (See Economic Council, 2005 and Welfare Commission, 2005: 112).

Figure 11: Overview of individual insurances, 2012.

	LO	FTF	AC	Other
Waiting period	1-3 months	30-60 days	1 month	(0) 30[12]-90 days
Qualification	**Employment:** 12 months (6) **Membership:** 12 months	**Employment:** 6-12 months **Membership:** 6-9 months	**Employment:** 6-12 months **Membership:** 6-9 months	**Employment:** 6-18 months **Membership:** 6-12 months
Duration	3-12 months	6-12 months	6-12 months	6-12 months
Maximum coverage	80-90% of 14.000-21.000 DKK	80-85% of 20.000-32.000 DKK	80-85% of 30.000-32.000 DKK	80-90% of 15.000-34.307 DKK
Age	Entry: 18-59 (64) Coverage: 60 (65)	Entry: 18-59 Coverage: 60 (65)	Entry: 18-54 (55) Coverage: 60 (65)	Entry: 18-59 Coverage: 60

Note: Other refers to unemployment funds outside the three main confederations. Data in brackets refer to conditions stipulated in one or two schemes and thus diverge from the general picture. Only individual insurances conditional upon fund membership is included. Maximum coverage refers to the maximum top-up amount that claimants can receive in addition to the public insurance.
Source: AK-Samvirke (2012) and insurance terms accessible from websites of insurance companies and unemployment funds.

Two other types of private insurance exist. As the only scheme in Denmark and Sweden the unemployment insurance supplied by Free Salaried Employees (*Frie Funktionærer*) offers an individual insurance that does not require membership of the public unemployment insurance. The scheme is moreover the only insurance which also covers incidences of voluntary unemployment on the condition that claimants participate in an activation scheme during the notice period. The scheme is open to members of the associated union covered by a minimum notice period of three months either through the Law on Salaried Employees which stipulates notice periods ranging from 3 to 6 months depending on tenure or through similar arrangements found in collective agreements No waiting period applies as the notice period functions as waiting period in the insurance. It is estimated that around 64% of the Danish labour force in 2007 was covered by the Law on Salaried Earners or by similar regulations in collective agreements and thus meet the conditions for entering the scheme (Scheuer and Hansen, 2011).

[12] The scheme offered by the unemployment fund for sales people (*Business Danmark*) stipulates a minimum waiting period of 30 days, yet disbursements can be paid out from the first day of receiving benefits depending on notice period and whether the insured is paid in arrears. No waiting days applies in the insurance offered by Free Salaried Employees (*Frie Funktionærer*) but coverage is only provided to members with notice periods of three months or more.

The first mandatory group insurance was introduced in the late 1988 by The Printers union (*Bogtrykkerfaget*) and provided members the opportunity for topping up the public insurance by 10% of the maximum amount in the public scheme during a maximum period of 26 weeks (Arbejdsministeriet et al., 1989: 218-219). In 2005 the union of Professionals in Pharmaceutical sciences (*Pharmadanmark*) introduced a collective scheme. The scheme resemblance a fund where contributions are pooled and made available to unemployed members with conditions for receipt and level of compensation is set according to the fund resources available. Members qualify after 12 months of 'relevant paid work', fund membership is not required and disbursements are paid out for a maximum of 12 months.

The only group insurance scheme currently found in Denmark similar to the schemes found in Sweden, is provided by the union of Commercial and Clerical Workers within the municipal sector (*HK Kommunal*). Like the Swedish group schemes it requires membership of both union and associated unemployment fund. No waiting days applies and the scheme is open to all active union members between the ages of 18 and 65. Members qualify for coverage after 12 months of membership and 12 months of work and the insurance provides 80% of former wage with a maximum top-up amount of 33.332 DKK. In late 2013 two more unions will launch similar schemes.

7.1 Denmark: Who is covered?

Even though the first individual insurance scheme was already launched in the mid-1980s and both unemployment funds and trade unions started showing interest in supplementary insurances during the 1990s, few private schemes were available prior to the early 2000s

Aided by the 'Freedom-Enactment' (*Frihedspakken*) introduced by the Center-Right government in 2002 the market for private insurances started to develop in 2003 and 2004. The new enactment liberalized the Ghent-system of state-subsidised unemployment insurance funds by abolishing the borders between insurance funds and thus allowing funds to recruit members from different trades and industries[13] (Lind, 2009: 514-515). The new state of competition between funds coincided with a rise in demand for additional insur-

[13] The Christian Fund existed prior to the 'freedom-enactment' and covered all types of workers. Thus, the choice of insurance fund was not formally restricted before 2002, but work place customs and pressure from shop stewards implied that close to all wage earners followed the crafts principle when choosing union and unemployment fund (Due and Madsen, 2007: 238–240).

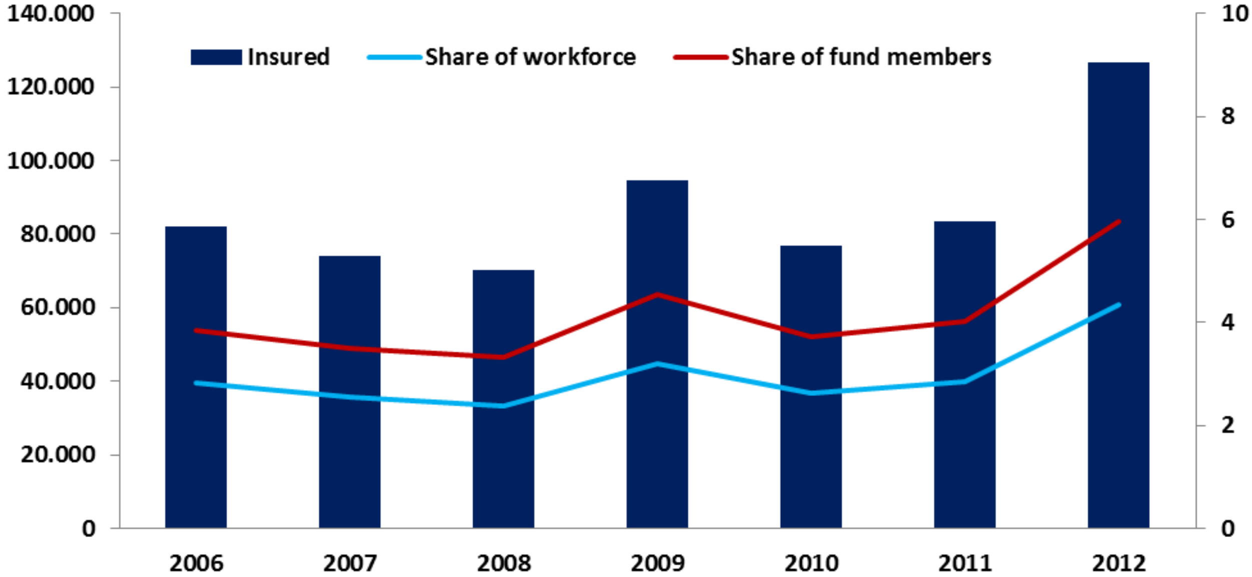
ance due to the rising unemployment in 2003-2004, which paved the way for collaborations between insurance companies and unemployment funds to introduce private schemes.

By the end of 2004 20 unemployment funds with 1.7 million members in total offered members the option of purchasing supplementary insurance and an estimated 50.000 fund members had taken out insurance (Forsikring og Pension, 2004: 14). The growth continued in 2006 where more than 82.000 had bought an individual insurance corresponding to 2.8% of the workforce and 3.9% of fund members. Due to record-low unemployment the following years saw a drop in the number of insured and sales first began rising again when the economic crisis hit in 2008-2009. Since then the number of insured has decreased slightly and was in 2011 back at the 2006-level. By 2008 93% of unemployment funds member had access to supplementary through their respective fund, which by 2012 had increased to 98%.

In addition to the individual insurances, 45.000 members are by mid-2013 insured in the recently introduced group scheme by the union of Commercial and Clerical Workers within the municipal sector (*HK Kommunal*). The new collective scheme contributed to a growth in the number of privately insured in 2012, which now accrues to more than 126.000. In late 2013 both the union of Social Educators (*Socialpædagogerne*) and the union of Commercial and Clerical Workers within the state sector (*HK Stat*) will introduce similar schemes. The new schemes are expected to cover around 50.000 members and the number of privately insured will thus approach 175.000 in the coming years. The introduction of collective schemes further implies that the number of persons enrolled in group schemes will exceed the number of individual insurances by 2014.

Total premiums have risen slightly during the period from 192 million DKK in 2006 to 310 million DKK in 2012 and have during the period constituted 3-4% of the membership contributions paid to the state in the public insurance.

Figure 11: Total number of private insurances, 2006-2012.



Note: Number of insured and insured as share of workforce and fund membership. Data both refer to individual and collective insurances and covers the number of insured in insurance schemes provided by: Lærerstandens Brandforsikring, Bauta, Alka, Genworth, Krifa (from 2011), Topdanmark, Tryg, Fair, Pensam and Europæiske. Workforce refers to the number of employed and unemployed persons between 15-74 years. Source: The Danish Insurance Association and Statistics Denmark – Labour Force Survey.

Data on the distribution of individual insurances between funds is limited and only partial. In 2005 individual insurances were concentrated in a few funds with coverage rates ranging between 7% and 10% in the unemployment fund associated with the business professionals (*Civiløkonomernes A-kasse*), Free Salaried Employees, the Christian fund and the Fund for Sales People (*Business Danmark) (Welfare commission, 2005: 113)*. With the addition of the Fund for Managers (Lederne) these funds also had the highest share of privately insured in 2008. Except for the fund for Metal Workers and Commercial and Clerical workers the lowest share of privately insured in 2008 was found in LO-funds with an average of 1% of fund members (Labour Market Commission, 2008: 46).

Even though that the number of privately insured has risen slightly in the period 2004-2009 in the largest LO-funds coverage remains low with less than 3% covered.

Figure 12: Distribution of individual insurances among largest unemployment funds, 2004-2009.

		2004	2005	2006	2007	2008	2009
Engineers fund *(IAK)*	Number	3.025	3.389	3.414	2.911	2.870	2.631
	Share	4.9	5.4	5.4	4.6	4.4	3.9
Metal, Commercial and Clerical and United Workers fund *(Metal, HK and 3F)*	Number	11.677	17.596	20.790	17.307	15.460	15.546
	Share	1.9	2.7	3.3	2.8	2.6	2.7
Christian Fund *(Kristelig a-kasse)*	Number	11.146	12.533	11.673	10.932	10.452	11.402
	Share	7.7	8.3	7.3	6.5	6.2	6.7

Note: Number of insured and insured as share of members. End of year. Combined membership constitutes around 40% of total UI membership and combined number of insured constitutes 35-40% of all insured between 2006 and 2009. HK, Metal and 3F refer to the combined number of insured and combined membership of the three funds.
Source: Houmark Andersen (2010) and Statistics Denmark.

7.2 Denmark: Who pays?

Individual insurances are taken-out and paid for individually. Premiums are set generally according to unemployment fund membership and wage level. A few schemes differ from this approach as they further include individual characteristics such as age, occupation or geographical location. As conditions are not standardised across schemes and are subject to the individual choices of the insured premiums are difficult to compare. Yet, attempts to compare premium levels across unemployment funds show a high-differentiation of premiums (AK-Samvirke, 2012: 8). For instance, premiums for 12 months of coverage with a monthly top-up amount of 10.000 DKK vary from 180 DKK to 980 DKK per month corresponding to a difference of 444%. In contrast the premium in the mandatory group scheme paid through membership is uniform across members and amounts to 35 DKK per month 2013.

The limited size of the insurance market as well as the organisation of unemployment funds further contributes to the rather strong actuarial principles found in the individual insurances. The Danish insurance market is characterised by many providers and relatively few policy holders and as a corollary of these characteristics risk-pooling is limited and premiums are therefore extremely sensitive to unemployment fluctuations. An indicator of the sensitivity of the market is that the average yearly premium increased by more than

70% from 2007 to 2010. In contrast to Sweden contemporary Danish union structure bears imprint of the craft legacy implying that unions are characterised by being organised according to trade rather than industry (Ebbinghaus and Scheuer, 2000). As unemployment funds was originally set up by unions this organising principle filtered through to the unemployment funds (Jensen, 2007a) and most unemployment funds have retained this organisation either formally or in principle despite the introduction of cross industry funds in 2002. The horizontal organisation of funds imply that member differentiation is generally low and group-risks are thus more closely related to the individual risks of members than in industry based risk-pools where skills, wage and craft differ to a larger extent. Thus, risk-pools in the Danish insurance market are thus characterised by both being limited in relation to the number of insured as well as to the differentiation of risks constituting the insurance pools.

Where private schemes in Sweden have benefitted from heavy tax subsidisation as well as preferential tax treatment similar tax rules applies to the public insurance and private schemes in Denmark. Both are subject to a tax deduction of 32% in 2013 gradually decreasing to 25% by 2019 as a consequence of a recent tax reform and disbursements from both schemes are subject to regular income taxation at a rate of 33% and are both exempted from the 8% gross tax referred to as Labour market contributions.

7.3 Denmark: Who governs?

The Danish market for private unemployment insurances diverge from the Swedish by being characterised by a wide range of providers and dominated by commercial insurance companies of both Danish and foreign origin.

Unemployment funds are formally circumscribed from providing private insurances or setting up companies to provide insurances and the supply of insurances through unemployment funds therefore relies on cooperation agreements between funds and insurance companies on the conditions for supplying members with insurance.

The multinational insurance company Genworth Financial is considered to be the largest provider of individual insurances in Denmark with a market share of around 33% in 2010 (Tænk, June, 2010). The public limited company Topdanmark is the third largest provider of private insurances and among the largest insurance companies in Denmark (ibid.). Alka is owned by the union movement and is considered the second largest provider (ibid.). The company thus is the only larger mutual insurance company and labour market related provider of insurances. Having both strong ties to the cooperative and the labour movement the company can be considered similar to Folksam in Sweden. The company provides individual insurances for most of the unemployment funds related to LO and group insurances for the three unions who have decided to establish such scheme.

Aside from the three main providers of insurances a list of smaller union-run insurance companies as well as commercial companies offers individual insurances. Some of these have been set up by cross industry unions to provide members of the associated unemployment fund with insurances, yet aside from the Christian insurance company (*Krifa Extra Sikring*) established in 2010 these are generally limited in scope.

7.4 Denmark: The politics of non-layering

As in Sweden the issue of private insurances to compliment the public unemployment insurance first came part of the political agenda when cuts were introduced to the public insurance during the severe economic crisis in the early 1980s.

After the re-election of the Centre-Right government in 1984 proposals to strengthen the 'insurance-element' in the public insurance and provide unemployment funds and their members with stronger economic incentives was high on the governments' agenda. Part of the plan was to introduce unemployment-dependent contributions which alongside benefit cuts was considered a way of re-balancing the relationship between fees and benefits in the insurance as well as relieving the state from 'the marginal risk of unemployment' (Goul Andersen, 2012b: 175; Nørgaard, 2007: 190-191). A further consideration was to change the benefit structure altogether and thereby create room for the introduction of supplementary insurances (Asmussen, 2007:101). The latter proposal was a key focus for the Liberal Party who during the 1980s occasionally argued for a partly or fully privatised system of unemployment protection to induce the right economic incentives in the unemployment insurance (Larsen and Goul Andersen, 2004: 149). However, where reforming the financing of benefits became a dominant theme the following years, the idea of introducing private insurances gradually faded from the political agenda.

The initiative to introduce supplementary benefits was instead left to the individual unemployment funds to decide. In late 1986 and after four years of declining compensation rates due to the benefit freeze the unemployment fund associated with the business professionals (*Civiløkonomernes A-kasse*) chose to launch the first supplementary insurance scheme.

The idea of changing the benefit structure and introduce supplementary insurances was revived when the government in 1989 issued a 'white book on the structural problems of the labour market' (Arbejdsministeriet et al., 1989) and was later also to become a proposal from the Social Commission (*Socialkommissionen*). Although both commissions were primarily concerned with analysing different models for the future financing of benefits a new benefit structure consisting of a flat-rate scheme and private supplementary insurances provided by unemployment funds or unions were also considered. Yet, neither reforms of financing or benefit structure was carried the subsequent years.

The issue of private unemployment insurance became a theme once again when the new Social Democratic government (1993-2001) in 1993 reduced the maximum duration period in the unemployment insurance.

Prior to the reform the Confederation of Danish Employers (DA) had announced that reducing compensation levels should be a key priority for the government and in return political initiatives should be taken to facilitate the creation of a market for supplementary insurances (Ritzaus Bureau, May 18, 1993). This idea resonated well with the former government party, the Conservatives, (*Det Konservative Folkeparti*), who subsequently launched a new political programme where both benefit cuts and the introduction of private insurances were among the key proposals (Ritzaus Bureau, March 21, 1994). The labour market spokesman of the Liberals applauded the proposals and described it as 'an old bourgeois idea that all unemployed should receive a basic allowance and be encouraged to take out supplementary insurance if they want to top-up' (JydskeVestkysten, August 29, 1994).

After the benefit cuts introduced in the 1980s trade unions and unemployment funds increasingly began showing interests in establishing supplementary insurances. In response to requests from unions the government decided to establish a committee under the Ministry of Labour to investigate the options for establishing supplementary schemes when a new reform of unemployment benefits was introduced in 1995. However, to the regret of unions who had proposed a mandatory scheme supported by public resources, the mandate for the 'Committee on supplementary insurances' (*Udvalg om tillægsforsikring*) under the Ministry of Labour clearly stipulated that a new system of supplementary insurances was to be financed exclusively by members themselves and any type of public subsidisation was thus ruled out from the beginning.

In 1996 the committee delivered their report which despite considering a range of different models by and large rejected the possibility of introducing any viable private schemes whether integrated into or detached from the public insurance. Even though trade unions had been represented in the committee they were quick to announce the need for a new committee to further investigate the matter, yet according to the Social Democratic Minister of Labour, Jytte Andersen, the premise of no public funding effectively ruled out the opportunity for such schemes to be viable (Ingeniøren, February 28, 1998). As the report further cleared the way for any legal obstacles in relation to setting up private schemes unions were instead encouraged to establish the own schemes if members showed interest in additional compensation.

On a platform of 'freedom of choice' a new bourgeois government took office in 2001. In regards to the unemployment insurance this implied the implementation of a 'freedom-enactment for the labour market' in 2002, which allowed members to choose freely between unemployment funds and gave funds the freedom to recruit members across craft demarcations (Due and Madsen, 2007: 238-240).

The state of competition led funds to consider supplementary insurances and by 2003 a majority of funds had set up partnerships with insurance companies to supply members with the option of buying supplementary insurance. LO-unions however remained deeply divided on the issue and only after heated debate at the LO-congress in late 2003 was it decided to allow LO-funds to supply members with voluntary private insurances (Jyllands-Posten, October 28, 2003). However, as the debate continued the following year most LO-funds first took advantage of the opportunity by late 2004.

Coinciding with the growing interest for supplementary insurances and the heated debate among LO-unions on the issue the new Centre-Right government launched a proposal to change the taxation of private insurances in 2003. The initiative would abolish the tax deduction right applying to premiums in return for tax exempting disbursements from the insurance. In effect, the proposal would introduce a preferential tax treatment of private insurances relative to the public insurance which were subject to regular income taxation and thereby kick start the recently founded insurance market. According to the Minister of Taxation the proposal was grounded in the increasing demand for supplementary insurances and was intended to 'simplify' the administration of such schemes by 'harmonising' the taxation rules applying to non-life insurances. The insurance industry had long lobbied the government for taking steps to make supplementary insurances more attractive as high initial demand for private unemployment insurances generated high hopes for the future growth of the insurance market (Jyllands-posten, November 23, 2003). However, as the proposal coincided with initiatives to cut the public insurance the governments' supporting party, the Danish People's Party (*Dansk Folkeparti*), refused to vote for initiatives that according to the parliamentary group leader would provide 'high-earners preferential treatment while introducing cuts for low-earners at the same time' and the proposal was therefore left out when the law was passed (Ugebrevet A4, September 29, 2003).

Representatives from the insurance industry revived the idea to introduce tax breaks for private insurances during the work of the government appointed Welfare Commission in 2004-2005 but the proposal was never considered and did not make it into the final report. The debate on a larger role for private schemes have since died out and neither the work of the Labour market commission in 2008-2009 nor the latest reform of unemployment insurance in 2010 have helped put the issue back on the political agenda. Yet, where the political debate on the issue have gradually silenced the recent introduction of group schemes by public sector unions may indicate a renewed and growing interest among trade unions in arrangements to provide members with additional compensation at unemployment.

7.5 Denmark: A fragmented response

The role of private supplementary insurances remains negligible in Denmark with the share of the workforce covered by such schemes hovering around 4% since private schemes started to spread in the mid-2000s. This sharply contrasts with the widespread availability of such schemes which in the same period have been offered by close to all unemployment funds. In contrast to the Swedish case, where a layering of private schemes have taken place over the last decade, the Danish development are thus characterised by a fragmented layering of private schemes and a less-coordinated response from trade unions and unemployment insurance funds to the drift of benefits levels in the public insurance. However, recent introductions of collective schemes may point towards a development where the Swedish types of insurance arrangements are becoming increasingly prominent.

Through the analysis we have provided two key reasons for the limited increase in the number of privately insured in Denmark through the 2000s. First, even though premiums typically derives from fund membership and thus set according to group risks, the minor and less diversified risk-pools stemming from the limited market for private schemes, the high number of providers as well as the horizontal organisation of unemployment funds imply that premiums have conformed closely to actuarial principles. The actuarial character of private scheme are not only reflected in premium levels but further in the conditions stipulated in most insurance schemes, which on key dimensions remain highly restrictive and therefore unattractive even to groups of employed in need of additional economic compensation. Thus, the Danish development serves to underline the argument of Barr concerning the non-feasibility of actuarial insurance against the risk of unemployment as the rather strict actuarial principles applying to individual insurances effectively have prevented the development of a private market. Moreover, private schemes are not and have not been subject to the same preferential tax treatment as in Sweden.

The absence of institutional change in the Danish case contrasts with how discussions on private provision have been part of the ongoing political debate on how to reform the public unemployment insurance. Issues related to the introduction of private insurances have figured in report from commissions, been introduced by trade unions, unemployment funds and major parties and have been scrutinised in political committees. This interest in the role of private provision is underlined by the fact that political initiatives to increase the attractiveness of private insurances relative to the public insurance and thereby provoke the layering of private benefits have been introduced but not implemented.

Chapter 8: Privatising unemployment protection and the paradox of privatisation

This thesis has documented and compared the differential growth of private unemployment insurances in Sweden and Denmark through the 2000s.

We have argued that the public unemployment insurance of both countries since the early 1990s has undergone a 'decremental' development primarily generated by changes made to the indexation of unemployment benefits in the early 1990s. The consequent 'residualization' of unemployment protection due to the dismantlement of earnings-related benefits has resulted in a partial privatization of risk-protection as the unemployment insurance in both countries have increasingly become flat-rate schemes with earnings-related benefits now exclusively applying to low wage-earners. This development has in turn created the basis for the crowding-in of supplementary types of income protection for the increasing share of the workforce left without adequate economic compensation in the public insurance.

The comparative analysis of the responses to the erosion of income replacement in the public insurance has documented how a rapid layering of private unemployment insurances has taken place in Sweden during the 2000s as more than half of all unemployment fund members and one-third of the workforce is now covered by mandatory group insurance schemes provided by trade unions and financed via union membership fees. A development which contrasts sharply with the Danish case where 4.4% of the workforce is covered by supplementary insurances since these started to spread in the mid-2000s.

This divergence in the development of coverage of private insurances is explained with reference to the markedly different structure of private provision in the two countries as well as differences in the taxation rules applying to private benefits. The differences in the structure and coverage of private provision further serve to explain the emergence of a seemingly sustainable layer of private provision in Sweden where union-run group insurance schemes based on mandatory participation and operating pay-as-you-go principles has significantly weakened the actuarial principles applying to the voluntary and individual types of private unemployment insurance prominent. In contrast, the Danish case highlights the inherent difficulties in establishing a market for private unemployment insurances based on voluntarism and actuarial principles and thus confirm the argument of Barr concerning the non-feasibility of private provision. The difference between the two cases thus points to a ‘paradox of privatisation’ in relation the supply of private unemployment insurance. This paradox stems from the fact that for private provision to be viable it has to incorporate social insurance principles and thus be more ‘social’ and less ‘private’ following the initial distinction outlined by Barr.

Appendix:

Swedish trade unions with collective insurances and associated insurance company, 2002-2013.

Trade union	Introduction	Status 2013	Insurance company
LO			
Byggnadsarbetareförbundet (Swedish Union of Construction Workers)	1 July 2008	Ended 1 October 2010	Folksam
Elektrikerförbundet - SEF (Swedish Union of Electricians)	1 January 2008		Folksam
GS, Facket för Skogs-, Trä- och Grafisk bransch (Swedish union of forestry, wood and graphical workers)	1 January 2011		Folksam
Handelsanställdas förbund (The Commercial Employees' Union)	1 October 2007		Folksam
Kommunalarbetareförbundet (Association of Swedish Municipal Workers)	1 January 2008		Folksam
Livsmedelsarbetareförbundet (Union of Food Workers)	1 April 2007		Folksam
Målareförbundet (Swedish Painters´ Union)	1 January 2009	Ended 31 December 2010	Folksam
Seko - Facket för Service och Kommunikation (Union of Service and Communication workers)	1 July 2007		Folksam
Transportarbetareförbundet (Swedish Transport Workers union)	1 October 2007		Folksam
TCO			
Sif (Swedish Union of Clerical and Technical Employees in Industry)	1 January 2002	Merged into Unionen by 1 January 2008	Sif Medlemsförsäkring
Lärarförbundet (Swedish Teachers' Union)	1 July 2009		Svenska lärarförsäkringar AB
SKTF/Vision (Swedish Association of White-collar Workers working with Service and Support to the Public within Municipal and County Areas, as well as in the Church)	1 May 2005		Förenade liv: 1 May 2005 – 30 April 2010 Bliwa: 1 May 2010

HTF	1 March 2006	Merged into Unionen by 1 January 2008	
Vårdförbundet (Swedish Association of Health Professionals)	1 January 2008		Förenade liv
Fackförbundet ST (Union of Civil Servants)	1 January 2010		Bliwa
Finansförbundet (Financial Sector Union of Sweden)	1 January 2007		Accept: 1 January 2007 - 31 December 2009 Bliwa: 1 January 2010
Journalistförbundet (Swedish Union of Journalists)	1 July 2008		Bliwa
FTF (Union of Insurance and Finance)	1 November 2005		Bliwa
Farmaciförbundet	1 July 2007		Folksam: 1 July 2007 – 31 December 2011 Bliwa: 1 January 2012
Skogs- och Lantbrukstjänstemannaförbundet (SLF)	1 January 2009		Förenade Liv
Unionen	1 January 2008		Unionen medlemsförsäkring
SACO			
Akademikerförbundet SSR (Union for Professionals)	1 January 2005		Salusansvar
Civilekonomerna (Swedish Association of Graduates in Business Administration and Economics)	1 May 2004		Salusansvar
DIK (Association of university graduates in documentation, information and culture)	1 June 2007		Salusansvar
Förbundet Sveriges Arbetsterapeuter - FSA (Swedish Association of Occupational Therapists)	1 May 2009		Salusansvar
Jusek (Swedish Union of University Graduates of Law, Business Administration and Economics, Computer and Systems Science, Personnel	1 January 2005		Salusansvar

Management and Social Science)			
Kyrkans Akademikerförbund (Swedish Union of Priests, Deacons and Holders of services in the Swedish Church)	1 January 2007		Bliwa
Legitimerade Sjukgymnasters Riksförbund (National Union of Registered Physiotherapist Planters)	1 October 2010		Salusansvar
Lärarnas Riksförbund (National Union of Teachers)	1 July 2009		Svenska lärarförsäkringar AB
Saco-förbundet Trafik och Järnväg, TJ (Swedish Association of Professionals in Transport and Logistics)	1 September 2003		Salusansvar
SRAT (Union for university graduates or professionals with a college degree, specialists and managers in the fields of health, communication and management)	1 September 2007		Salusansvar
Sveriges Arkitekter (Swedish Association of Architects)	1 October 2009		Salusansvar
Sveriges Farmacevtförbund (Swedish Pharmaceutical Association)	1 May 2004		Salusansvar
Sveriges Ingenjörer (Swedish Association of Graduate Engineers)	1 September 2003		Salusansvar
Sveriges läkarförbund (Swedish Medical Association)	1 January 2012		Salusansvar
Sveriges Psykologförbund (Swedish Psychological Association)	1 January 2011		Salusansvar
Sveriges Skolledarförbund (Swedish Association of School Principals and Directors of Education)	1 July 2007		If
Naturvetareförbundet	1 May 2004	Merged into Naturvetarna by 1 January 2009	Salusansvar
Naturvetarna (Swedish Association of Professional Scientists).	1 January 2009		Salusansvar
Agrifack	1 July 2004	Merged into Naturvetarna 1 January 2009	Salusansvar

Outside confederations			
Ledarna (Swedish Association of Managers)	1 May 2005		Bliwa
Säljarnas Riksförbund (National Union of Sales People)	1 January 2003		Bliwa

Note: HTF and Sif merged into Unionen by 1 January 2008. SKTF changed its name to Vision by 2 September 2011. Agrifack and Naturvetareförbunde merged into Naturvetarna by 1 January 2009.
Source: Lindqvist and Wadensjö, 2005, 2011; IAF, 2004, 2010; Information supplied by TCO, LO and SACO; Essemyr, 2013 and Bliwa.

Danish unemployment funds supplying supplementary insurance and associated insurance company, 2013.

Unemployment fund	Insurance company
LO	
Min a-kasse	Tryg
Metal a-akasse (Metal workers)	Alka
Fag og Arbejde – FOA (Social and health care workers)	Pensam
El-faget (Electricians)	Alka
Faglig Fælles a-kasse – 3F (Blue collar workers)	Alka
Fødevareforbundet - NNF (Food workers)	Alka
Funktionærernes og Servicefagenes a-kasse	Alka
Teknikerne (Technicians)	Alka
Handels- og Kontorfunktionærer - HK (Commercial and clerical workers)	Alka
Socialpædagoger (Social Educators)	Europæiske Rejseforsikring
FTF	
Lærernes a-kasse (Teachers)	Lærerstandens Brandforsikring
Børne- og ungdomspædagoger (Early Childhood and Youth Educators)	Europæiske Rejseforsikring
FTF-A (Cross-industry within FTF – insurance, finance, social workers and building professionals)	Topdanmark
DSA (Health professionals)	Bauta
AC	
Akademikerne - AAK (Academics)	Top-Danmark
Civiløkonomerne - CA (Business professionals)	Europæiske Rejseforsikring
Ingeniørerne - IAK (Engineers)	Topdanmark/IDA forsikring
AJKS (Journalists and communication employees)	Topdanmark/Europæiske Rejse-forsikring
Magistrenes a-kasse **(Masters and PhDs)**	Topdanmark
Outside confederations	
Frie Funktionærer (Free Salaried Employees – Cross-industry)	FF Forsikring
Kristelig a-kasse - Krifa (Christian – Cross-industry)	Krifa forsikring
Det Faglige Hus (Cross-industry)	Alpha Group
Business Danmark (Sales people)	Europæiske Rejseforsikring
ASE (Cross-industry)	Topdanmark
Ledernes a-kasse (Managers)	AmTrust International

Source: AK-Samvirke (2012).

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