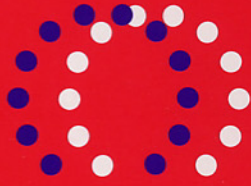


Helka Hytti

The Finnish Employment and Income Security Models
in a Nordic Comparison



52/2006

Social Security and Health Research:
Working Papers

Helka Hytti

**The Finnish employment and income
security models in a Nordic comparison***



52/2006

Social Security and Health Research:
Working Papers

Kela [®]

KELA, RESEARCH DEPARTMENT | HELSINKI 2006

ISBN 951-669-696-1 (print), 951-669-697-X (pdf)

ISSN 1455-0113

Vammalan Kirjapaino Oy

Vammala 2006

* This study is based on an earlier Finnish-language article published in an appendix to the Government Report on the Future (Hytti 2004a).

CONTENTS

Summary	3
1 Purpose of the study	4
2 Employment in Finland and the other Nordic countries	5
2.1 Labour market participation	5
2.2 Differences in the distribution of labour inputs	9
3 Characterisation of benefits and their utilisation	13
3.1 Nordic differences in the distribution of benefits in a nutshell	13
3.2 Income security benefits provided for health reasons	14
3.3 Pathways to early retirement	16
3.4 Unemployment protection	19
3.5 Balancing work and family life	20
4 Institutional differences and incentive structures explaining the cross-country variation in the utilisation of benefits	24
4.1 Key institutional differences in operating principles	25
4.2 Disability benefits: the integration of persons with functional limitations, restrictions on benefit utilisation and obstacles to employment	29
4.3 Incentives affecting the employment status of aging workers	32
4.4 Some differences in incentive structures of the unemployment protection systems	34
4.5 The employment effect of family benefits	34
5 Summary and conclusions	35
5.1 Objective	35
5.2 Participation in paid work and social security utilisation in the Nordic countries	36
5.3 Which factors relating to the income security systems of the Scandinavian countries reinforce a high rate of employment?	37
5.4 Final remarks	39
References	39

Helka Hytti, Senior researcher
Adjunct professor, D.SOC.SC
Kela, Research Department
helka.hytti@kela.fi

© Helka Hytti and Kela, Research Department
© Translation Harri Lipiäinen, Kela

www.kela.fi/research
tutkimus@kela.fi

Summary

The purpose of the study was to compare the Finnish employment and income security models with the other Nordic countries and to evaluate to what extent the differences in income security systems reinforce or even produce the revealed differences in labour market participation. The differences in labour market behaviour are analysed on the basis of statistical material derived from labour market surveys and official population statistics. The income security systems are compared specifically on their potential ability to encourage to stay on at work longer and to reconcile working life with social security, with special reference to those whose capacity or willingness to participate full time is temporarily or permanently reduced (elderly workers, parents of small children, persons with impaired functioning, and others at a disadvantage in the labour market).

A comparison of employment models focusing on 2002/2003 showed that of the Nordic countries, Finland has the lowest employment rate (67.7%) and the shortest employed life expectancy (men: 32.5 years; women 31.6 years), but the largest number of hours worked per employed person (1682 h). This means that paid work is distributed among a smaller proportion of the working-age population and across a narrower range of years of the life time than in the Nordic countries. In terms of the number of hours worked, the difference to Sweden and Norway was especially pronounced. There are two principal reasons for this: first, part-time work is less common in Finland than elsewhere in the Nordic countries (especially among women); and second, temporary absences are much less common than in Sweden or Norway.

The statutory social security arrangements of the other Nordic countries are more supportive of persons disadvantaged in the labour market than is the case in Finland, principally because of high earnings replacement rates and ceilings on coverage for earnings losses. In Denmark and Norway, the earnings replacement rate of sickness and parental allowances for low-income persons is 100 percent, which means that the work absences of employees at the lower end of the income distribution scale result in no wage costs for the employers, with the exception of the initial employer-covered period of sickness absence. The gross earnings replacement rate of the allowances is in Finland the lowest in the Nordic countries, which not only means smaller

allowances for the employees but also imposes a heavier burden on the employers topping up the statutory allowance with a collectively bargained wage component.

The possibility to combine benefits flexibly with paid employment is built into nearly all of the benefits available in the other Nordic countries. Among them, at least part-time sickness allowances and partial disability pensions appear to have a discernible effect on employment. In Finland, part-time benefits are available on more stringent criteria and are used little (with the exception of the part-time pension). The other Nordic countries have additional arrangements for promoting the employment of the chronically ill and those with impaired functioning, which limit the potential risk to the employer from hiring functionally impaired persons. In Finland there are no such regulations for "high risk employees". Among the Nordic countries, Finland is alone in applying experience rating for individual employers when it comes to statutory disability pension provision. The direct costs which this imposes on the employers are assumed to act as a disincentive to the hiring of older workers and functionally impaired persons at the same time as they promote employers' motivation to take better care of the health of their employees.

1 Purpose of the study

In the lively debate on the implementation of the European Union's Lisbon Strategy and its overarching principle to combine economic, labour market and social policy goals in a mutually reinforcing way, the Nordic countries are often mentioned as examples of the workability of the "European social model". The Nordic countries are top performers in many international surveys which rank countries according to economic development, employment and competitiveness, even though they have retained their accustomed high level of income security and a large selection of public services. In recent times, Denmark has been a particularly impressive example of the compatibility of economic performance and high social solidarity, whereas Finland has lagged behind its Nordic neighbours particularly with respect to the development of total employment.

In Finland as in most other EU countries, raising the rate of employment and lengthening work careers are among top goals for the current decade. The Finnish Government has set a goal of increasing the employment rate from its current level of 67 percent to 75 percent by the end of the next parliamentary period in 2011. The Government is also seeking to extend average working careers by 2 to 3 years. Attainment of these goals would lift the Finnish employment rate to the level of the other Nordic countries. However, in setting these goals, the Government took scant notice of the fact that the structure of employment is markedly different in Finland than it is in the Scandinavian neighbour countries. Compared to Swedes and Norwegians, Finns are more likely to be in full-time employment, to retire earlier and to end up in long-term unemployment but also have fewer short absences from work. Taking this into account, is it possible to raise the employment rate and lengthen working careers without at the same time adjusting other factors determining the total labour input, such as the prevalence of part-time employment or the social norms governing sickness and other temporary absences from work? Here we find that it is useful to examine Finland and the other Nordic countries comparatively to discover to what extent the characteristics of social security systems of the individual countries may have produced or reinforced the differences in the employment structures observed between the Nordic countries.

Comparing Finland with the other Nordic countries is useful from a broader European perspective as well. Given the fact that the Nordic countries are relatively homogenous with regard to their labour markets and the institutional structure of their social security systems, analysing the differences that can be discerned will help to highlight mechanisms which are universally relevant to understanding the interaction between labour market and social security systems. According to common European objectives, social security is to be reformed to provide greater support for employment and re-employment of groups occupying a precarious position in today's labour markets. Key steps involve strengthening the labour market position of ageing, functionally limited or poorly trained workers and of women struggling to combine work and starting a family, and supporting their continued employment. We must also examine social security more closely from the point of view of fitting it to the needs of individuals at different stages of life, including balancing work and family life and pursuing life-long learning. In order to promote the employment and social inclusion of different groups in society, it is essential to consider the needs of both parties in the labour market, to make work more attractive than welfare, and to combine social security with flexible work arrangements. (European Commission 2003a.)

The purpose of this study is to discover how the employment patterns of Finnish workers differ from those of their counterparts in the other Nordic countries, and to examine to what extent the employment differences can be explained by differences in the institutional structure of social security. The starting observation is that in the Nordic countries nearly all persons of working age are either gainfully employed or in receipt of income security benefits, which themselves are in one way or another linked with gainful employment. Taking this as our starting point, the provision of income security appears as a kind of exercise in optimisation aimed both at providing security against various livelihood risks and at maximising participation in gainful employment through a host of incentives whose purpose is to promote the supply and demand for labour. Since the Nordic countries are largely homogenous in terms of their basic labour market and social security structures, comparisons between them can help us to examine the effect of whatever institutional differences that can be observed.

The study is comprised of two parts. The first part looks at labour force participation and the distribution of gainful employment in the working-age population. The second part begins with a comparison of income security benefit systems and benefit utilisation rates in the Nordic countries, and moves on to discuss the differences in utilisation rates in relation to differences in employment patterns. We approach the subject from the point of view of the "institutional logic" of social security systems (cf. Freeman et al. 1995; Kosonen 1998, 175–181) and its effect on the labour force participation of the working-aged population. In describing the social security systems of the individual countries, we shall limit ourselves to features relevant to the study problem. The benefit utilisation rates are compared on the basis of existing studies and statistical information. The legislation is described from the point of employees and employers, excluding self-employed persons and those outside the labour market. The time period covered is in most cases one particular year at the beginning of the 2000s.

It must be noted that an accurate portrayal of the labour market and social security models of the individual Nordic countries would require us to broaden our attention beyond social security to encompass taxation and income policies as well. However, in the present study we shall focus solely on describing the institutional structures of the benefit systems. Another limitation of our approach that must be acknowledged is that it takes no account of the different paths of development taken by the social security systems of the Nordic countries to reach their current state of relative homogeneity.

2 Employment in Finland and the other Nordic countries

2.1 Labour market participation¹

Employment and labour force participation rates

One of the hallmark features of the Nordic model has been the high employment rate among both

men and women. A comparison of labour force surveys in the enlarged EU shows all of the Nordic countries to be placed well. In 2003, Denmark occupied the top position with an employment rate of 75.1 percent, while Sweden was third (72.9%) and Finland seventh (67.7%). At 75.4%, the Norwegian rate was roughly the same as Denmark's. Among the other EU countries, Finland was surpassed by Austria, Cyprus, Great Britain and the Netherlands. (Table 2.1.)

Prior to the recession of the early 1990s, Sweden held the top position among the Nordic countries with an employment rate of 81.4 percent, while Finland was third with a rate of 74.1 percent, one percentage point behind Denmark but one point ahead of Norway (Statistical Offices of the Nordic countries).

Figure 2.1 shows that reasons for the difference in the employment rate between Finland and the other Nordic countries are primarily found in the employment rates of the youngest and oldest age groups. The employment rate of Finnish men diverges from the rest of the Nordic countries already at the age of 45 years. By contrast, the employment rate of Finnish women aged 40–54 is a little higher even than the corresponding Norwegian rate. One notable observation is that the employment rate of Swedish young adults is as low as that of their Finnish counterparts, but the employment rate of Swedes between the ages 50 and 64 is, for women, the highest in the Nordic countries and, for men, equally high as in Norway. In Denmark, the overall employment rate is boosted considerably by the exceptionally high level of employment among young adults. The employment rate for the older age groups in Denmark is, for men, approximately the same as in Sweden and Norway, and for women, approximately the same as in Finland. The overall employment rate in Norway is raised by the high rate particularly among older workers, but also among young adults.

The greatest relative difference between Finland and the rest of the Nordic countries appears when we study the labour force participation rate of those aged 65 or over. No more than 6 percent of Finns aged 65–69 are gainfully employed, compared with nearly 20% of Norwegians, 14% of Danes and 13% of Swedes.

In Finland, the total supply of labour is also significantly lower than in the other Nordic countries. The lower employment rate in Finland is, then, only

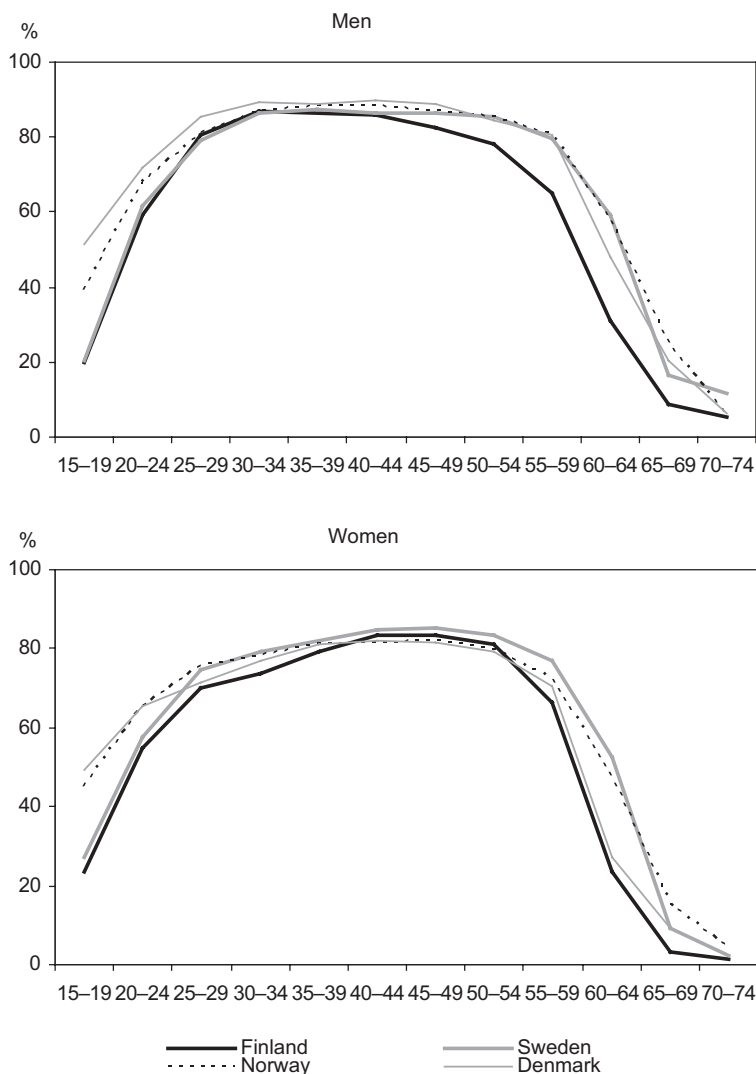
¹ The *employment rate* refers to the gainfully employed as a percentage share of the population of the same age. It represents the rates reported in labour force surveys averaged over several weeks. Included among those gainfully employed are those who have worked at least one hour or who have been temporarily absent from work throughout the week. Correspondingly, the *labour force participation rate* is calculated as a share of population of those in the labour force (either employed or unemployed).

Table 2.1. Labour force participation, employment and unemployment rates in the Nordic countries, 2003.

	Finland	Sweden	Norway	Denmark
<i>Labour force participation rate (15–64)</i>	74.4	77.3	77.3	79.4
<i>Employment rate</i>				
Both sexes (15–64)	67.7	72.9	75.4	75.1
Men	69.7	74.2	76.8	79.6
Women	65.7	71.5	71.2	70.5
55 to 64 year-olds	49.6	68.6	66.7	60.2
65 to 69 year-olds	5.9	12.7	19.7	14.3
<i>Unemployed as a percentage of the labour force (15–64)</i>	9,0	5,6	4.5	5.6

Source: Eurostat, New Cronos.

Figure 2.1. Employment rates in the Nordic countries by 5-year age groups, 2003.



Source: Eurostat, New Cronos.

partly attributable to higher unemployment. Seventy-four percent of working-age Finns were in the labour force, which is 5 percentage points less than in Denmark and about 3 points less than in Sweden or Norway. The rate of unemployment, or the share of the unemployed in the total labour force, was highest in Finland (9%) and lowest in Norway (4.5%). (Table 2.1.)

Labour market participation over the life cycle

In the European Union success in meeting the targets for longer labour market participation over the life cycle is measured by means of the "exit age", which represents the intensity of labour force withdrawal among persons aged 50 or over (see European Commission 2002; Scherer 2002). Hytti and Nio (2004) illustrate the many problems associated with this method. According to the authors, the fundamental principle in the monitoring of the length of working life should be a description of the length of the time spent in the labour market in proportion to the life expectancy as a whole. This requirement is met by the method used widely in public health studies, where the total life expectancy is divided into different stages of life in terms of health and work ability (the so-called Sullivan method).

Table 2.2 shows the results of a calculation using the Sullivan method of labour force participation in the Nordic countries in 2002 and compares labour market life expectancies to general life expectancies in each country. The measure depicts the active life expectancy of an artificial birth cohort based on the assumption that the labour force shares, employment rates and mortality of individual age groups remain unchanged at the level of the study year throughout the entire life span of the cohort. The table presents separately the expected years of life as a part of the labour force and in employment at ages 16 and 50.

In table 2.2, the labour force participation expectancy of 16-year-olds represents the length of labour force participation over the entire life cycle assuming that labour force shares and mortality risks specific to the year 2002 remain unchanged throughout the cohort's life. In Finland, the labour force participation expectancy of 16-year-old males (35.8 years) is roughly four years shorter than in Norway or Denmark and about three years shorter than in Sweden. The gap between Finland and the other Nordic countries widens further when we look at

expected years in employment. In Finland, males aged 16 have an expected employment of 32.5 years, or a little over five years less than in Norway or Denmark and about four years less than in Sweden. Among women, the difference between Finland and the other Nordic countries in both labour force participation and employed life expectancy is less pronounced than it is among men. With a labour force participation expectancy of 34.8 years and an expectancy of employment of 31.6 years, Finnish women aged 16 are two years behind Norway and Sweden on labour force participation expectancy and a little less than four years behind on employed life expectancy.

The difference between Finland and the rest of the Nordic countries becomes even more prominent when we turn our attention to labour market life expectancies at age 50. Finnish men and women aged 50 have employed life expectancies of 8.6 years and 8.4 years, respectively, while in Norway and Sweden, men's life expectancy in employment is more than three years longer and women's more than two years longer than in Finland. Denmark has only a six-month advantage over Finland when it comes to the employed life expectancy of ageing women.

Longer life expectancies are often used as an argument for the need for longer working careers. This argument assumes that at least some of the gain in total life expectancy should be allocated to making working careers longer. Comparisons of the general life expectancy and active life expectancy in the individual Nordic countries do not unequivocally support this argument. The main counterexample is the case of Danish women, whose life expectancy at both age 16 and age 50 is about two years shorter but whose employed life expectancy is longer than that of Finnish women of the corresponding ages.

In table 2.3, we examine further the contribution of different age groups to the differences in total working life expectancy at age 16 in various Nordic countries. The comparison shows, in the light of experiences from the Nordic countries, to what extent it seems to be possible to extend the total length of working life by raising employment levels at both ends of the working-age population. The table shows that the contribution of young Danes to the expected length of working life is significantly bigger than the contribution of young adults in the other Nordic countries. This is in contrast to Norway, where the expectation of years in employment

Table 2.2. Labour market and overall life expectancies at ages 16 and 50 in the Nordic countries, 2002/2003.

	Finland	Sweden	Norway	Denmark
<i>Expectancy of life as part of the labour force, years</i>				
at age 16				
– men	35.8	38.5	39.7	39.2
– women	34.8	36.6	36.8	36.1
<i>Expectancy of life in employment, years</i>				
at age 16				
– men	32.5	36.8	37.9	37.8
– women	31.6	35.2	35.3	34.6
at age 50				
– men	8.6	11.9	12.3	11.0
– women	8.4	10.8	10.9	8.8
<i>Overall life expectancy, years</i>				
at age 16				
– men	59.3	62.2	60.9	59.3
– women	65.9	66.5	66.0	63.8
at age 50				
– men	27.7	29.6	28.9	27.3
– women	33.0	33.4	33.0	31.0

Sources:

Finland and Sweden: Labour force surveys 2002, life tables 2002.

Norway: The figures for the expectancies of life as part of the labour force and in employment are from 2003, while the overall life expectancy figures are from 2002.

Denmark: Register-based labour force statistics, 1.1.2002, life table 2001–2002.

Table 2.3. Input of various age-groups into the expected years in employment of 16-year-old males and females in the Nordic countries 2002/2003.

Age-group	Finland	Sweden	Norway	Denmark
Males				
Expected employment total	32.5	36.8	37.9	37.8
<i>of which years lived at age</i>				
16–24	3.8	4.1	5.0	6.3
25–49	20.6	21.1	21.0	21.0
50–74	8.1	11.5	11.8	10.5
Females				
Expected employment total	31.6	35.2	35.3	34.6
<i>of which years lived at age</i>				
16–24	3.9	4.3	5.0	5.9
25–49	19.4	20.4	19.6	20.2
50–74	8.2	10.6	10.7	8.5

during the total life time is increased by high employment levels both in the young and the elderly populations.

2.2 Differences in the distribution of labour inputs

Part-time and temporary employment

Part-time and temporary employment is generally referred to collectively as "atypical employment". However, the EU employment strategy refers to diversity in work-time arrangements rather than to atypical work. Part-time and temporary work offer an opportunity for the integration of persons marginalised from the labour market. Promotion of flexible work-time arrangements and the possibility to make transitions between different arrangements by means of social security is necessary with a view to addressing the needs encountered by individuals at different stages of life (European Commission 2003a, 125–155). The problem is how to find the right balance between flexibility and security. Providing more opportunities for part-time and temporary work via social security may be one way to boost employment. In the longer term, however, atypical work diminishes the quality of working life and workers' professional qualifications, and creates a significant risk of long-term unemployment or complete exclusion from the labour market.

In Finland, part-time employment is substantially less common than in the other Nordic countries. In 2003, less than 13 percent of Finnish workers were in part-time employment, while the corresponding shares in Sweden and Denmark were 21–22 percent and in Norway 28 percent. The differences are largest for women but the same pattern applies to men

as well. Among Finnish women, the share of the part-time employed was a good 17 percent, compared to about 33 percent among Swedes and Danes and as high as 45 percent among Norwegians (table 2.4).

Figure 2.2 looks at the degree to which the employment rates of different age groups in the Nordic countries consist of part-time and full-time employment and analyses the extent to which part-time employment is voluntary. The Figure shows that only a relatively small share of those in part-time employment wished to be employed full time, so part-time employment is mostly voluntary in all Nordic countries. An analysis by age group and sex shows significant differences between the individual Nordic countries. For example, the differences in the youth employment rate between the Nordic countries are largely due to different patterns of part-time employment. Men in their prime working years between 25 and 49 are almost exclusively in full-time employment in all Nordic countries and the cross-country differences are minor. In terms of women, however, Finland stands apart from the other Nordic countries, with Finnish women in the 25 to 49 age group being almost exclusively full-time employed. A much lower incidence of part-time employment in Finland than in the other Nordic countries is also observed with regard to ageing female workers. This is the case despite the fact that Finland is presently the only Nordic country to offer part-time pensions based solely on age criteria.

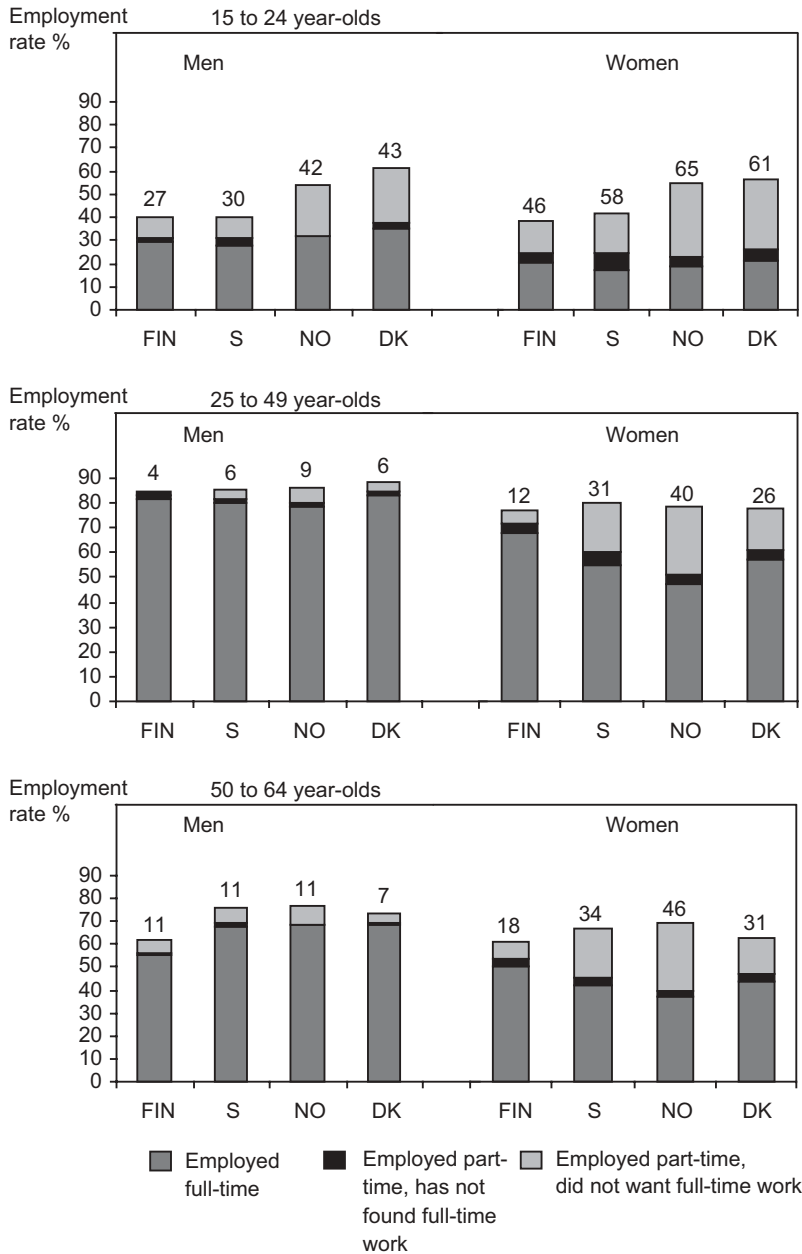
Fixed-term employment contracts have traditionally been significantly more common in Finland than in the rest of the Nordic countries or in the EU on average (Kauhanen 2002). For the sake of improving the labour market position and employment rate of women it is important to see whether Finnish women, especially those of child-bearing age,

Table 2.4. Workers employed part-time as a share of all persons in work aged 15–64 in the Nordic countries, 2003.

	Finland	Sweden	Norway	Denmark
Both sexes	12,6	22.0	28.1	20.6
Men	8.0	10.0	13.2	10.8
Women	17.5	34.9	44.8	32.6

Source: Eurostat, New Cronos.

Figure 2.2. Employment rates in the Nordic countries divided into part-time and full-time employment, by age and sex, 2003. (The figure above each column shows the part-time employed as a percentage of all persons in work.)

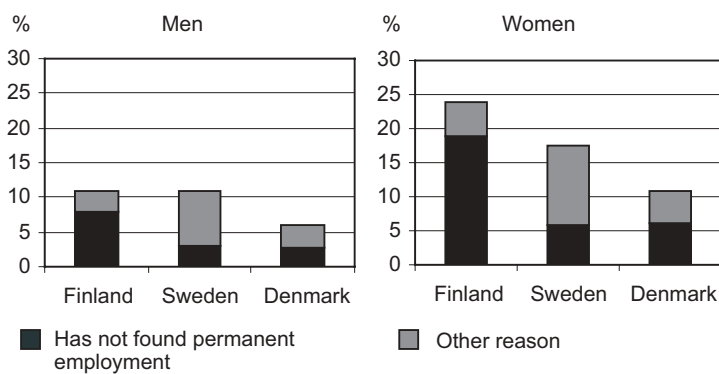


Source: Eurostat, New Cronos.

are more likely to be in fixed-term employment than their counterparts in the other Nordic countries. In recent lively debate on short-term employment in Finland, various commentators have drawn attention to the idea that back-to-back short employment

contracts and intervening periods of unemployment make it particularly difficult for young women to secure a steady income or to plan their personal future and career.

Figure 2.3. Employees in fixed-term and temporary employment contracts as a share of all employees aged 25 to 39 in Finland, Sweden and Denmark, 2003.



Source: Eurostat, New Cronos.

In Figure 2.3, we look at fixed-term employment contracts as a proportion of total employment in Finland, Sweden and Denmark, focusing on the 25–39 age group, where starting a family and arranging child care for small children are topical concerns. As expected, we find that Finnish women are more likely than Swedish women and especially Danish women to work in a fixed-term or temporary employment relationship. The share of women in the 25–39 age group working under a temporary contract was 24%, 17% and 11%, respectively, in Finland, Sweden and Denmark. The difference to Sweden is particularly noticeable when we focus on the share of those involuntarily working under a fixed-term contract. In Denmark, the prevalence of fixed-term contracts is probably decreased by the relatively low level of job security; in other words, employers see no need for fixed-term contracts as long as redundancy is an easy option. In Sweden, the large share of other than involuntary fixed-term contracts might well be at least partially explained by a comparatively high rate of job rotation, involving the hiring of substitutes for workers on temporary leave of absence. On the whole, our comparison suggests that Finnish women of child-bearing age have a weaker labour market position than their counterparts in the other Nordic countries.

Effective rate of employment

The employment rate alone does not give a full picture of the cross-country variation in the total work effort of the working-age population. In labour force surveys, those in work are defined as persons

who have been in paid employment for at least one hour during the survey week as well as persons who have spent the entire week on a temporary leave of absence for such reasons as inclement weather conditions, annual holiday, illness or maternity/parental leave. The structure of income security determines to a large degree the importance of temporary work absences to the overall rate of employment. The greater the opportunities afforded by the social security system for temporary absences (while receiving sickness or parental allowance, for instance), the more slack there is in the employment rate compared to countries where the provision of social security is linked more to unemployment and to benefits provided to those outside the labour force. Longer yet temporary absences from work also have the tendency to raise the employment rate for the reason that a single job often generates two employed persons, with both the absentee and the substitute being recorded as 'in work' for the purpose of labour force surveys (Haataja 2005). Therefore, it is worthwhile to complement our comparison of Nordic employment rates by calculating an effective rate of employment where the effect of temporary work absences is eliminated. This measure is popular in Sweden and Norway, both of them countries where temporary absences are much more common than in either Finland or Denmark (see www.fk.se and www.ssb.no).

Figure 2.4 shows that Denmark's rank in the Nordic employment comparison is improved further when we compare the effective rate of employment. An average of 13.2% Danes in work were absent from work during the survey week, giving an effec-

tive rate of employment of 65.2%. Finland had the second lowest rate incidence of absences covering the entire survey week (14.6%), while Sweden had the highest (17.1%). This translates to an effective rate of employment of 57.9% for Finland and 60.4 for Sweden. The share of the working-age population not absent from work throughout the survey week was only 2.6 percentage points higher in Sweden than in Finland, compared to a gap of 5.2 percentage points between their employment rates.

Paid employment measured by the hours worked

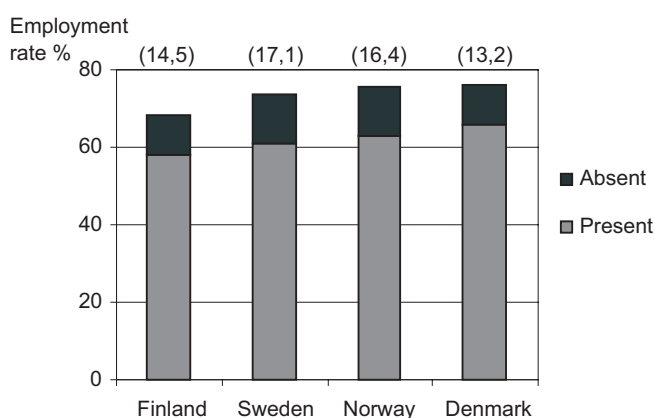
In the foregoing, we compared the labour force participation of Finns and other Nordic populations on a number of measures. What, then, should we conclude from our findings: do Finns engage in paid employment more or less than their Scandinavian neighbours? To find an answer, we shall extend our analysis by yet another indicator, which provides a more accurate picture of labour input. The analysis is based on data on "actual hours worked" recorded by the labour force survey.

Hours worked is a much more precise measure of the total labour input than the number of persons

in work. Differences in hours worked provide a summary measure of the differences in total labour input arising from disparities in the number of those in paid employment, in the normal fluctuation of working times, in part-time work, and in temporary absences from work. Hours worked is also an important starting-point for comparing productivity. Cross-country comparisons of actual hours worked are conducted under a number of different methodological approaches; they may also pursue different objectives (OECD 2004).

In table 2.5, we compare the labour input measured by hours worked in the Nordic countries by dividing the total number of hours worked in a year by the number of persons in paid employment. The table also includes an extrapolation of the increase in employment rate and the number of persons in work in Finland assuming that the total sum of hours worked is as reported in the Finnish labour force survey, but the hours worked per employed person are equal to that seen in another Nordic country. In other words, the table indicates how many more persons in employment would have been needed in Finland, if they had worked as "little", on average, as the employed persons in each of the other Nordic countries.

Figure 2.4. Employment rate in the Nordic countries according to the presence or absence of the worker during the survey week, 2002. (The figures in brackets show those absent for the entire survey week as a percentage of all persons in work.)



Source: National labour force surveys.

Table 2.5. The number of hours worked per employed person and the total employment in Finland under alternative distributions of the hours worked: Finland compared to the other Nordic countries, 2002.

	Finland	Sweden	Norway	Denmark
Number of hours worked annually per employed person aged 16 to 64 ¹	1 682	1 584	1 524	1 637
Employment rate (15–64)	68.1	73.6	75.4	75.9
Increase in the number of employed persons in Finland if the hours worked were distributed among the employed population as in the other Nordic countries				
– Increase in the number of employed	.	146 000	244 000	65 000
– Increase in the employment rate (percentage points)	.	4.2	7.0	1.9

¹Includes only the hours worked by persons of working age. Persons in employment include also those absent from work for the entire week.

Sources: The data on the hours worked and the employed persons between ages 16 and 64 are from national statistical offices; the employment rates are from Eurostat.

The number of hours worked per year and per employed person was highest in Finland, reaching 1,682 hours in 2002. The smallest number of hours worked per employed person, 1,524 hours, was seen in Norway. Denmark's figure was not far from Finland's, while Sweden fell between Norway and Finland but closer to the former. The calculation concerning the effect of variations in the distribution of the hours worked shows that when the total sum of hours worked by Finns is distributed across the working-age population in the same way as it is in Norway, the difference between the Finnish and Norwegian rates of employment disappears. When the Finnish case is adjusted to correspond to the Swedish experience, the rate of employment in Finland is increased by about 4 percentage points. Finally, a redistribution of the hours worked in Finland in line with the Danish figures increases the Finnish employment rate by only about 2 percentage points.

3 Characterisation of benefits and their utilisation

In this section, we provide an overview of the various earnings-replacement benefits in the Nordic countries and present statistical data about their

utilisation rates. The structure of the benefits, their compensation levels, and the factors influencing their utilisation will be discussed in more detail in section 4.

3.1 Nordic differences in the distribution of benefits in a nutshell

Compared on the basis of the utilisation of benefits, the Nordic countries are ranged in distinct positions on an illness-unemployment scale (figure 3.1). Norway stands out when it comes to the utilisation of health-related benefits, while in Finland the emphasis is on benefits provided for labour market reasons.

Of working-age Norwegians, 15.3% on average were in receipt of sickness or rehabilitation allowance or on disability pension, while the share of those unemployed or participating in labour market policy measures was as low as 2.9%. In Sweden, the proportion of persons receiving a health-related benefit was a little under 2 percentage points lower than in Norway, but the share of those either unemployed or participating in labour market policy measures was correspondingly nearly 4 percentage points higher.

In Finland, an average of 9.4% of the working-aged population were in receipt of health-related benefits, which was about 6 percentage points lower than in Norway and 4 points lower than in Sweden. The lowest share of recipients of such benefits, 7.4%, was seen in Denmark (this excludes the smallest early retirement pensions).

Compared with the rest of the Nordic countries, the biggest problem in Finland appears to be the large number of unemployed job seekers. An average of 8.7% of the working-aged population – 2 or 3 times as many as in the other Nordic countries – was registered by the labour authorities as seeking employment in 2002. Adding those on unemployment pension or participating in labour market policy measures, we get a share of 13% of the Finnish working-age population who were outside the labour market for one labour market related reason or another. Under this broad definition of unemployment, more than four times as many Finns as Norwegians, and about twice as many Finns as Swedes, were unemployed. Denmark had the second highest share of persons on one labour market benefit or another.

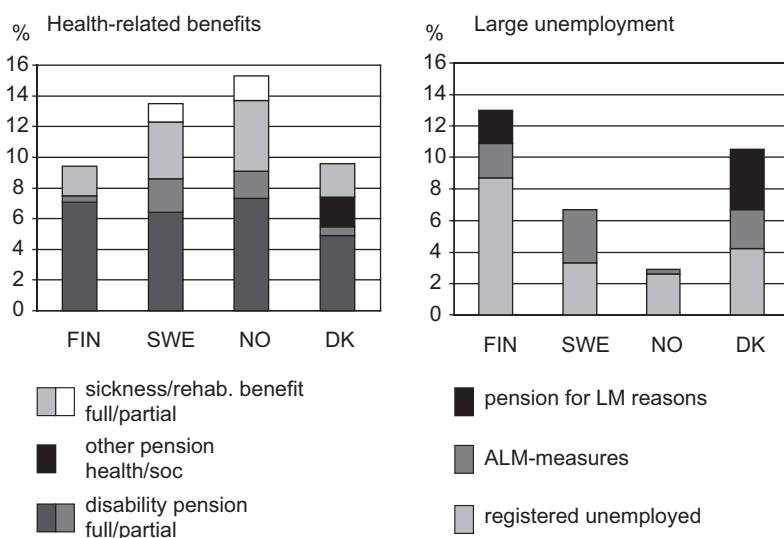
3.2 Income security benefits provided for health reasons

Income security during sickness absence

In all Nordic countries, loss of income due to sickness absence is compensated from three different sources. Employers typically have statutory responsibility for covering the initial period of incapacity, after which benefits are provided under national sickness insurance arrangements. Along with sickness allowances, the Nordic countries have provisions for supplementary benefits based on labour market agreements which take the form alternatively of sick pay or benefits based on collective insurance.

The period of *statutory coverage by the employer* is aimed at preventing unnecessary use of benefits and keeping employers motivated to look after their workers' health. In Finland, employers are under the Employment Contracts Act required to provide their workers with full pay for the day of onset of incapacity and the following 9 weekdays (including Saturdays). In Norway, employers pay a sickness allowance for 16 days, and in Denmark, for 2 weeks. Until July 2003, Swedish employers were required to pay statutory sick pay for 2 weeks, which was preceded by a one-day waiting period. During the following 1.5 years, the employer period was 3 weeks, after which it was again shortened to 2 weeks.

Figure 3.1. Recipients of health related benefits and "large unemployment" as a share of the aged 16–64, 2002.



The Nordic countries differ in terms of how much autonomy they allow insured persons in the assessment of work incapacity at the onset of illness. The Finnish provisions are the strictest in this respect. Employers may require workers to present a medical certificate for the very first day of incapacity. In Sweden, a medical certificate is not required until the 8th day of incapacity. While public debate on sickness absenteeism in Sweden has been lively, this rule has never been called into question. In Norway and Denmark, a medical certificate is required from the 4th day of incapacity. However, Danish workers must present written notification of their incapacity on the 2nd day.

Sickness allowance from health insurance becomes payable once the employer-covered period ends. The Nordic countries differ in terms of the maximum duration of the allowance. In Finland, Norway and Denmark, sickness allowance can be paid for a total of about a year within any period of 2 or 3 years. While Sweden applies no maximum limit, a reform carried out in 2003 established the objective that sickness allowance should generally not be awarded for a period exceeding three years. In Norway, various rehabilitation benefits serve the same purpose as the Swedish sickness allowances extending past the one-year mark. This is seen for example in the a report by the Norwegian social security agency Rikstrygdeverket, according to which persons who retired on a disability pension had during the four years preceding their retirement spent an average of 2.3 years on sickness and rehabilitation allowance (RTV 2003, 28).

In all of the Nordic countries, *sick pay* is a major addition to the statutory sickness allowance (see NOSOSKO 2004). In Sweden, supplementary sickness cover is also provided by collective insurance financed by the labour market parties.

Disability pensions

In *Finland, Sweden* and *Norway*, statutory *disability pensions* are comprised of an earnings-related employment pension and a universal state pension. In Denmark, disability pensions are available only from the state pension system. In Sweden and Finland, the state pension is a minimum pension that sets the basic level of retirement provision, while in Norway it is a flat-rate basic pension.

The *Danish* disability pension is grounded in a different philosophy than the disability pensions of the other Nordic countries. Since 2003, it has been paid only to persons who have been diagnosed as fully and permanently disabled for work and who have no other options left, such as activation or rehabilitation measures. Those who have some remaining capacity for work but whose employability cannot be restored, are referred to supported employment specially designed for persons with impaired functioning (so-called *flexjob*). Pensions granted before 2003 are covered under sunset provisions which divide "premature pensions" (førtidspensioner) into four categories (ETK 2002; Sociale ydelser 2004).

Pensions and allowances payable in respect of partial incapacity for work

The sickness allowances and disability pensions provided in the Nordic countries differ greatly in terms of how the degree of incapacity for work is defined and the extent to which those with an impaired capacity for work are realistically able to make use of their remaining capacity for work by combining benefits and paid work.

A *partial sickness allowance* is available in Sweden, Norway and Denmark. A similar benefit is scheduled to be introduced in Finland in 2006; however, the Finnish benefit is designed to serve a distinctly different purpose. Its main intention is to help persons absent from work for medical reasons to return to work, and it will be paid only for a period not to exceed 3 months. In the other Nordic countries, the partial sickness allowance is also aimed at helping incapacitated persons participate in work at all stages of their illness.

The most conspicuous difference between the proposed Finnish system and the existing Scandinavian partial sickness allowance systems is in the criteria by which incapacity for work is defined. In Finland, the definition of incapacity will be the same as is applied to full-time absence from work, which will result in the allowance mainly offering a chance for incapacitated persons to test their work ability once recovery has progressed to a certain point. In the other Nordic countries, partial sickness allowance is determined by reference to the degree of deterioration in work capacity. In Sweden, the allowance is provided in three grades: $\frac{1}{4}$, $\frac{1}{2}$ and $\frac{3}{4}$, while in Norway partial sickness allowance is avail-

able if one's capacity for work declines by 50–90%. One peculiarity of the Norwegian system is that partial sickness allowance is also available for workers who work normal hours but whose work input is reduced. In Denmark, the amount of the partial sickness allowance is linked to the reduction in working hours. It is payable for a reduction as small as 4 weekly working hours.

Partial disability pension is available in Sweden, Norway and Finland, but not in Denmark. In Sweden and Norway, the rules concerning the recognised degrees of disability are the same as are applied to sickness allowances. In Finland, a partial disability pension is available under the earnings-related employment pension system provided one's capacity for work has diminished by at least two fifths but by no more than three fifths. In Denmark, *flexjob* serves some of the same purpose as the partial disability pension. It is available to incapacitated workers who have some work capacity left. Employers pay *flexjob* workers a normal wage, half or two thirds of which is compensated by the municipality.

Utilisation of health-related benefits

As noted above, the total utilisation rate of *all disability benefits combined* is significantly higher in Norway and Sweden than in either Finland or Denmark (section 3.1). These cross-country differences are diminished somewhat if we convert the partial benefits into full-time absences. Following this conversion, we get disability benefit utilisation rates of 14% (Norway), 12% (Sweden) and 9% (Finland and Denmark). The Danish rate drops to 7% if we exclude the smallest premature pensions granted primarily on social criteria.

In recent years, Norway and Sweden have left Finland far behind in terms of the number of people in receipt of *disability pension*. Of Norwegians and Swedes of working age, 9% received a full or partial disability pension, compared to only 7.5% in Finland. This gap is even wider if the Swedish sickness allowances paid for a period longer than a year and the long-term rehabilitation allowances available in Norway are considered as disability pensions for purposes of comparison with Finland. In Denmark, recipients of a disability pension accounted for 5–7% of the population depending on whether small premature pensions granted partially or totally on social criteria were taken into account (Table 3.1).

It is an open question whether *partial disability benefits* are more likely to increase total work effort in Sweden at the expense of full-time absence than to make the benefits more attractive and thereby increase their overall utilisation. In recent years, partial benefits have accounted for a share of a little over one fourth of the total number of compensated days in Sweden, compared to one fifth in Norway and about 5% in Denmark (NOSOSKO 2005). In Sweden and Norway, the ratio of the recipients of partial benefits to all beneficiaries is the same also in the case of disability pensions (RTV 2003; www.rfv.se). The utilisation of partial benefits is so common in both Sweden and Norway that it can be presumed to have an *effect on the rate of employment*. In person years, a little short of 190,000 persons in Sweden and about 77,000 persons in Norway received partial disability benefits in the form of a sickness allowance or disability pension in 2002, representing a share of 3.7% and 2.7%, respectively, of the working-age populations.

All recipients of partial disability benefits, however, are not included in the employment rate. They may draw a partial unemployment allowance or subsist on a diminished benefit without participating in paid employment. Labour force participation among recipients of a partial pension has been examined in Norway and Finland. In the former, around 75%, and in the latter, a good 60%, were in paid employment. (Gould et al. 2003; RTV 2003, 96.)

In Denmark, the utilisation of the *flexjob* option, effectively a replacement of partial disability pension, had been increasing already before the 2003 pension reform. Converted into full-time employment, the number of *flexjob* workers in Denmark numbered 19,000 in 2002, or double the amount in the preceding year. Premature pensions provided under the previous legislation on social grounds (either partially or totally) were paid to about 66,000 persons in 2002 (DST 2003a; NOSOSKO 2004).

3.3 Pathways to early retirement

Disability pensions payable on medical grounds are in all of the Nordic countries the principal and most enduring form of early retirement provision prior to the old-age pension. Other alternative statutory pathways into early retirement include the pensions granted for labour market reasons and age-based part-time pensions. Further, there is the possibility

Table 3.1. Recipients of health-related income security benefits as a percentage of the working age population and the share of partial benefits of all health-related benefits in the Nordic countries, 2002.¹

Benefit	Finland	Sweden	Norway	Denmark
Persons on health-related benefit, total	9.4	13.5	15.3	9.0
– Converted to full-time reciprocity	9.2	11.8	13.9	9.0
Persons on sickness benefit, total	1.6	4.6	4.4	1.6
Less than a year	1.6	2.5	4.4	1.6 ²
– Converted to full-time reciprocity	1.6	2.1	3.9	1.6
More than a year	..	2.1	..	..
– Converted to full-time reciprocity	..	1.9	..	..
Persons on rehabilitation benefit	0.3	0.3	1.8	0.6
Persons on disability pension	7.5	8.6	9.1	4.9
– Converted to full-time reciprocity	7.3	7.5	8.2	4.9
Persons on other pension payable for health and/or social reasons	..	..	..	1.9
Approximate share of partial benefits (%)				
– of sickness benefits	.	25	20	5
– of disability pensions	5	25	20	.

¹ The data on sickness and rehabilitation benefits are shown in person-years, the data on pensions and unemployed persons reflects the situation at the end of the year, and active labour market measures are shown as average participation during the year.

² Daily allowance days compensated under the insurance arrangement for small employers have been deducted, according to an estimate, from the data on sickness benefits for Denmark.

Sources: ETK and Kela 2003; ILO 2003; NOSOSKO 2004.

of retirement on collectively bargained non-statutory pension arrangements. Early retirement options have in recent years been pared down in all Nordic countries at the same time as the qualifying conditions for old-age pensions have been made more flexible by the elimination of a fixed pensionable age and other measures.

Finland and Denmark are presently the only Nordic countries with a statutory *early retirement pension provided on grounds of labour market policy*. In Finland, this pension option takes the form of unemployment pension, and in Denmark, that of the *efterløn* ("post-employment wage"), an early retirement pension provided out of the unemployment

insurance scheme. The pensionable age for both the Finnish unemployment pension and the Danish *efterløn* is 60 years. In Finland, the unemployment pension is part of the statutory old-age and disability pensions system. Under the terms of a pension reform implemented in 2005, the unemployment pension will be phased out and the special retirement needs of the elderly unemployed will be administered to out of the unemployment insurance scheme. The Danish *efterløn* is available to long-term members of an unemployment fund and is paid out of the unemployment protection budget. It was originally designed to curtail the supply and increase the turnover of labour (European Commission 2003b). However, it is also possible to go on *efterløn*

directly from paid employment. This is why the *efterløn* can also be seen as an age-based special pension (NOSOSKO 2004).

Special provisions for elderly workers as part of the unemployment protection system exist in both Finland and Denmark as well as to a certain extent in Sweden. In Finland, retirement on an unemployment pension is preceded by passage through a so-called "unemployment pipeline", which guarantees uninterrupted coverage for earnings-related benefits from the age of 57 until entitlement to a disability pension. In Denmark, earnings-related coverage for those aged 55 years or over continues until they reach age 60, provided they satisfy the eligibility criteria for the *efterløn*. Certain transitional benefits have also been granted out of the unemployment protection budget for those unemployed persons who are over 50 years of age and meet the *efterløn* criteria. Such benefits were granted in 1993–1995, but because of their long duration, some remained in payment as of the early 2000s. One difference of this Danish arrangement to the Finnish "unemployment pipeline" is that recipients of the transitional benefits were required to leave the labour force entirely, whereas the long-term unemployed passing through the Finnish "unemployment pipeline" were registered as job seekers though not nearly always actively seeking employment within the meaning of the labour force survey. In Sweden, the elderly unemployed are entitled to unemployment compensation lasting 450 days, while other unemployed persons can only get "passive" unemployment benefits for a maximum of 300 days.

In Finland, 21% of the population aged 60–64 years were in receipt of unemployment pension, while in Denmark, *efterløn* was paid to as many as 43% of the equivalent age group. Only about a fifth of those retiring on *efterløn* had previously received unemployment benefit. A number of steps have been taken to reduce the utilisation of the *efterløn*, including making it more flexible with regard to combining paid work and retirement. The pension can be adjusted up or down in relation to the number of hours worked. Incentives have also been built into the system to reward the insured for postponing retirement. However, the reforms have had little effect. (DST 2003a; European Commission 2003b; ETK and Kela 2003; NOSOSKO 2004.)

Some have criticised the high rate of utilisation of the Finnish early retirement options available on grounds of labour policy, arguing that the "pension

pipeline" offers employers and employees the chance agree between themselves on the utilisation of benefits without giving the public authorities much say in the matter. Yet on the other hand, it has been shown that use of the "unemployment pathway" has been determined largely by the demand for labour. In its economic and employment policy, Finland has given priority to the open sectors of the economy and the industries most exposed to global competition. Unlike several continental European countries, Finland has succeeded in adjusting the retirement pathways available to elderly workers to the prevailing social and economic circumstances by consultations between the government and the labour market parties. (Hytti 2004b.)

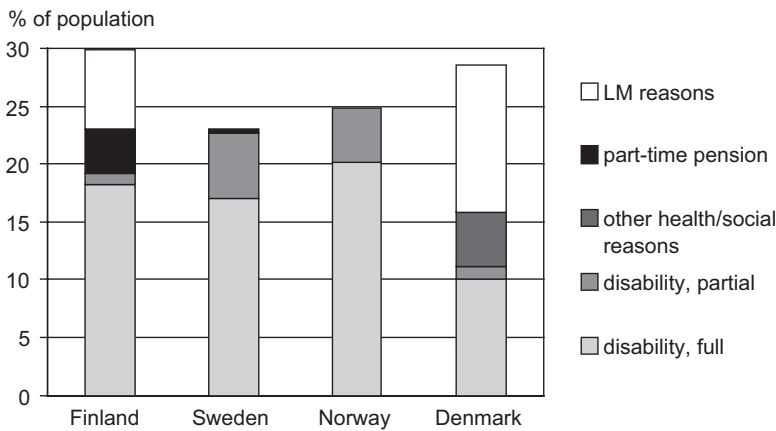
Part-time pensions based entirely on age and not at all on medical criteria are available in Finland and Denmark. In practice, however, part-time pensions are a viable option only in Finland. A total of 41,000 persons were in receipt of a part-time pension as of the end of 2003. Because the Danish *efterløn* is also available as a part-time benefit, a separate part-time pension is only paid to those individuals who are not entitled to a part-time *efterløn*. In Sweden, part-time pensions were discontinued as part of a reform of the old-age retirement security provisions.

The share of pensioners in the 50–64 age group

Figure 3.2 shows the recipients of pensions or equivalent benefits as a share of the population aged 50–64 years in the Nordic countries. When all avenues of exit from paid employment (not including old-age pensions) are considered, Finland stands apart from its Nordic neighbours in terms of the high utilisation of early retirement pensions. In Denmark, the share of pensioners in the 50–64 population is near that of Finland, but here too the analysis is confounded by the availability of the *efterløn*, which is to some extent equivalent to an age-based pension.

Early retirement pensions were being paid to 30% of the Finns aged 50–64, compared to just 20–23% of the Swedes and of the Norwegians. If the analysis is extended to include health-related benefits paid for more than a year, the difference between Finland its neighbour countries remains at 5–7 percentage points.

Figure 3.2. Population aged 50–64 in the Nordic countries: Take-up rates of disability pensions, part-time pensions and pensions based on labour market reasons.



3.4 Unemployment protection²

The Nordic countries differ significantly in terms of unemployment protection. One major difference is in the distribution of benefits between "passive" cash benefits and activation measures. Another key difference can be seen in the extent to which the administration of unemployment protection is entrusted to the labour markets and to what extent it is the responsibility of the central government. The prevalence of means testing is a third important point of divergence.

Earnings-related unemployment protection is voluntary in Finland, Sweden and Denmark and compulsory in Norway. In Sweden and Finland, non-members of unemployment funds are entitled to basic unemployment allowance. There is no basic unemployment allowance in Denmark, but non-members of unemployment funds are eligible for a municipal living allowance, which is relatively generous but conditional on participation in activation measures. Finland differs from the other Nordic countries in that unemployment protection includes, along with unemployment insurance proper (basic and earnings-related unemployment allowances), also a means-tested benefit called the labour

market subsidy, which is payable to persons who are just entering the labour market and to those who have exhausted their entitlement to basic or earnings-related unemployment allowance. In the following we limit our description mainly to comparing the length of time for which earnings-related unemployment allowances are available and the relative roles of passive cash benefits and activation measures.

In *Finland*, earnings-related unemployment allowances and non-means-tested basic allowances are payable for up to 23 months in total. Prior to becoming unemployed, the recipient must have been gainfully employed for at least 43 weeks within the last two years. The length of previous employment required is approximately the same as that required in Denmark (one year within the last three years), but longer than in Sweden, where only 6 months of employment within the previous 12 months is required. The Nordic countries differ also with regard to the rules concerning requalification for benefits. In this respect, Finland and Denmark apply much stricter rules than Sweden, because they do not recognise supported employment alone as requalifying a person for unemployment benefits. (MIS-SOC 2003.)

In *Denmark*, earnings-related unemployment benefits are payable for a total of four years. During the first year, unemployed persons are expected to look

² Extended unemployment protection for elderly workers is covered in section 3.3.

for work on their own initiative. In the following three years, at least 75% of the time on benefit must be dedicated to activation measures (Bredgaard et al. 2003; MISSOC 2003). One of the features distinguishing the high level of unemployment protection in Denmark from the Finnish system is the ability of the Danish system to combat structural unemployment without driving down unemployment benefits and driving away a growing share of the unemployed from the earnings-related unemployment allowance system into the municipal living allowance system.

In *Sweden*, the maximum length of earnings-related unemployment allowance is normally 300 days, but it can be extended to 600 days by a separate decision. Also in Sweden, an increasing number of unemployed individuals, mainly immigrants and young people, are left entirely outside the unemployment fund system (Palme and Wennemo 1997). In practice, however, unemployed persons rarely lose their entitlement to earnings-related benefits and have to rely on income support. This is because of three things. For the first, the 'activity guarantee' introduced in 2000 ensures that earnings-related benefits continue to be paid as long as the recipient participates in a basically full-time activation programme until he or she finds employment in the open labour market or otherwise requalifies for earnings-related benefits. Second, it is easier than in Finland to resatisfy the eligibility requirements regarding previous employment by participating in supported employment arranged in the private sector. Third, a large number of the long-term unemployed have begun to receive sickness allowance, in many cases just when their entitlement to unemployment benefits is about to end. (Forslund et al. 2004.)

In *Norway*, unemployment benefits are payable for three years. Because of low structural unemployment, activation measures are not common.

The utilisation rates of unemployment benefits

In the Nordic countries the total population receiving passive or active labour market benefits can be approximated in a cross sectional situation by summing up the number of registered unemployed persons and the number of persons participating in active labour market measures. An overview based on this definition of large unemployment was presented figure 3.1 (section 3.1) and in table 3.2. For

this study we have not gathered statistical information on unemployment daily allowance benefits in the Nordic countries. Instead we use the number of the registered unemployed, which is a rather good approximation of the number of people receiving full-time unemployment benefits. However, it must be taken into consideration that both in Sweden and in Finland approximately 10–15 percent of all registered unemployed persons dropped out of the unemployment benefit systems around the turn of the century (Bergmark and Palme, 2003; Kela/Stakes database, 2000). Considering the purpose of this study, it would be important to compare also the utilisation of the partial unemployment benefits and the possibility to combine these benefits with paid work in the individual Nordic countries (see Eurostat 2005). Also the question about means-testing of the benefits should be discussed more thoroughly. However, for practical reasons we limit our statistical presentation to the general overview presented in table 3.2.

When the structure of the beneficiary population is analysed, Sweden is seen to put in relative terms the greatest emphasis on active labour market policies. The total share of large unemployment in working-age population was 6.7%, of which one half was in active labour market measures. In Denmark, the utilisation rate of passive cash benefits was significantly higher (4.2%) and participation in active labour market measures lower (2.5%) despite the international renown enjoyed by the activation-oriented Danish labour market policy.

In Finland, activation measures are used in relative terms much less than in Sweden or Denmark when comparisons are made as a share of the total number of beneficiaries. However, the number of participants in ALMP measures as a share of the working-age population is in Finland nearly the same as in Denmark (2.2% and 2.5%, respectively). With regard to the utilisation of "passive" cash benefits, Finland was in a league of its own, with 10.8% of the working-age population receiving cash benefits (being registered unemployed or receiving unemployment pensions) compared to 8% in Denmark (including *efterløn*) and 3.3% in Sweden.

3.5 Balancing work and family life

Long family leaves and comprehensive day care services are a common feature of all of the Nordic countries, which has enabled them to create a bet-

Table 3.2. Persons participating in labour market policy measures, registered as unemployed persons or receiving pension for labour market reasons, as a percentage of the working-age population in the Nordic countries, 2002¹.

	Finland	Sweden	Norway	Denmark
Large unemployment, total	13.0	6.7	2.9	10.5
On unemployment pension / efterløn	1.7	..	..	3.8 ²
On farm closure allowance	0.4	..	..	..
Registered as unemployed	8.7	3.3	2.6	4.2
Participating in labour market policy measure	2.2	3.4	0.3	2.5
– Other than supported employment	1.1	1.9	0.3	1.4
– In supported employment	1.1	1.5	0.1	1.1

¹ Pension recipients and unemployed persons as at year-end; persons participating in labour market policy measures on the basis of the average participation rate for the entire year.

² Among efterløn recipients, the shares of persons with and without a preceding period of unemployment are approximately 1.1 and 2.7 percentage-points, respectively.

Sources: ETK and Kela 2003; ILO 2003; NOSOSKO 2004.

ter environment for combining work and family responsibilities than many other countries and helped them to maintain a comparatively high rate of fertility. Family benefits like other income security arrangements influence the functioning of labour markets through a number of institutional incentives and disincentives focusing on both employers and insured persons. For one, family benefits affect how young adults perceive their possibilities of starting a family and when they are likely to time any decision to do so. The important thing is not only the level of benefits but also the length of family leaves and sufficient freedom of choice regarding the demands of work and family and the distribution of duties within the family. A particular problem of the Finnish and to some extent the Swedish labour market is seen in the prevalence of atypical work relationships among women of child-bearing age and the uneven distribution of family leave costs between different sectors of the economy and between individual employers. According to a statement issued by Finnish service sector employers (Palvelutyöntäjät 2003 and 2004), the situation as it stands also weakens the employment

situation and leaves unused much of the potential that exists for increasing the employment rate.

In the following, we shall compare the length of parental leaves and the level of parental benefits in the Nordic countries (table 3.3). Particular attention is paid to the ability to combine work and family demands flexibly and the individual freedom of choice regarding leave arrangements and the distribution of tasks within the family. The focus is on leaves in connection with childbirth, temporary leave of absence to look after a sick child and home care allowances available as an alternative to public day care services.

Parental allowances

The *allowances payable during maternity, paternity or parental leave* are equal in amount to the sickness allowance in all of the Nordic countries. Although earnings-related, the maternity allowances – unlike the sickness allowances – are paid at a basic minimum rate even if the recipient has no pre-

Table 3.3. Parental and child care benefits in the Nordic countries at year-end 2003¹.

	Finland	Sweden	Norway	Denmark
<i>Maternity, paternity and parental benefits</i>				
Earnings replacement rate, %	70	80 ³	100/80	100/80/70
Length of payment (weeks)	44	apprpx. 64	42/52	52/60/66
– to mother before childbirth	5–8	apprpx. 9	3–12	
– to mother only	18	8	9	18
– to mother and father	3	2	2	2
– to father only	2 ²	8	4	–
– to mother or father	26	apprpx. 52	29/39	32/40/46
Possibility of part-time benefit	Both parents at the same time, min 2 months	1/8, 1/4, 1/2, 3/4	Under a time account arrangement, according to reduction in working hours	Under a time account arrangement, according to reduction in working hours
<i>Temporary care of a sick child</i>				
	Based on labour market agreement	Benefit	Benefit/ Employers responsible for continued pay for 10 days	Based on labour market agreement
<i>Child home care allowance</i>				
Coverage	National + municipal supplements	–	National	Municipal
Eligibility	Children under 3 years		Children under 3 years	
Availability of partial benefit	Reduction in working hours (also for preschool and primary school) ⁴		5 compensation classes according to the number of hours spent in day care	

¹ For the income caps, see table 4.1.² Fathers are entitled to a 2-week "bonus leave" if they take the last two weeks or more of the regular parental benefit days.³ Paid for 90 days at the rate of the basic benefit not related to earnings.⁴ Attendance of municipal day care does not preclude payment of the partial care allowance.

Sources: RTV 2003; NOSOSKO 2004.

vious earnings. The leave of absence covered by the parental allowances is quite long in all of the Nordic countries. The maternity and parental leave has always been longest in Sweden and, until a reform enacted in 2002, shortest in Denmark. The reform

moved Denmark past Finland and Norway in terms of the length of the parental allowance period. However, the picture changes significantly if the home care allowances available exclusively in Finland and Norway are taken into account.

In terms of the ability to combine work and family responsibilities, the Finnish allowance system is much less flexible and offers much less freedom of choice than the equivalent systems in the other Nordic countries. This applies equally well to the total length of the parental allowance period, the ability to break down the allowance period into shorter segments, the availability of part-time benefit arrangements, and the ability of fathers to go on parental leave.

In both Norway and Denmark, it is possible to choose from a number of alternatives customised in terms of the length of the allowance period and the earnings replacement rate, and to flexibly combine a part-time allowance with paid employment under a specific time account arrangement. Parents may choose whether they wish to draw parental allowance for a shorter period of time at a 100% earnings replacement rate (up to a specified earnings cap), or draw the allowance longer but at a lower replacement rate. The parental allowance period, whether 42 or 52 weeks as in Norway or 52, 60 or 66 weeks as in Denmark, can also be spread out over a longer period of time by combining it with part-time employment. While similar arrangements allowing parents to combine different replacement rates and allowance periods are not available in Sweden, the parental allowance is available on a part-time basis (1/8, 1/2, 1/4, 3/4), in which case the allowance period is lengthened correspondingly. A part-time parental allowance is also available in Finland, albeit with the proviso that both parents must be on part-time status at the same time. (MISSOC 2003; Haataja 2004a; NOSOSKO 2004.)

In all of the Nordic countries, it is possible to take a separate paternity leave irrespective of any other parental leave decisions, consisting of 2–3 weeks around the time of a child's birth. The parental allowance includes a "father's quota" in all of the Nordic countries except Denmark. In Sweden, 8 weeks of the parental leave is allocated to both parents. In Norway, 4 weeks of the parental leave is set aside for use by the father. In Finland, the father's quota is subject to conditions which provide fathers an additional two weeks of leave at the end of the parental leave if they take the last two weeks of the parental leave period.

Finland is the only Nordic country where the parental allowance cannot be split into several periods. In Sweden, all of the parental allowance must be taken before the child's 8th birthday, and in Den-

mark, before the child's 10th birthday. In Norway, the allowance can be spread out over a period of two years. (MISSOC 2003; Haataja 2004a.)

The utilisation rates of flexible parental allowance arrangements

While there are considerable differences between the Nordic countries in the flexibility of parental leaves, statistical evidence suggests that these differences are not as consequential to the ability and willingness to combine work and family responsibilities as one might expect merely by comparing the legal provisions. Of course, any conclusions we may draw from this evidence should be tempered by the awareness that women in the other Nordic countries are much more commonly in part-time work than Finnish women.

In Norway, about 75% of mothers chose the lower parental benefit rate and a correspondingly longer benefit duration in 2001. Yet only 2% of those receiving parental allowance took advantage of the possibility to combine part-time work and partial allowance under a time account arrangement (NOSOSKO 2004). Swedish parents took about 2 percent of all of the parental allowance days after their child was past the age of 18 months. About 7% of the maternity and parental leave days were covered on a part-time employment basis in 2003 (www.rfv.se). In Sweden, part-time work between two periods of maternity leave has been made more attractive by a provision which ensures that the allowance is not decreased if another child is born within 2.5 years (Haataja 2004b). In Finland, the number of parents choosing the part-time parental allowance is vanishingly small, with only 40 mothers and fathers taking advantage of this option in 2003. The unpopularity would appear to be due to stringent qualifying conditions.

Payment of parental allowances to fathers

The extent to which parental allowances are paid to fathers in the individual Nordic countries is clearly related to the length of the "father's quota" and how flexibly it can be used. In Finland and Denmark, fathers took about 5%, in Norway 9% and in Sweden 17% of the days for which parental allowance was available in connection with childbirth. While there is a growing tendency also in Finland for fathers to take parental leave days, the growth has so

far been due to increasing utilisation of the paternity allowance paid consecutively with the maternity allowance. The "bonus leave" tagged on to the end of the parental leave period was used by 4,000 fathers in 2004. According to Haataja (2004b), fathers' ability and willingness to use the father's quota specifically and parental leave in general is limited in Finland by lack of flexibility in the governing provisions. For example, the benefit period cannot be postponed as it can in the other Nordic countries, although it might make practical sense to take the father's share of the parental leave after the child care leave taken by the mother, during a time when the family, no longer entitled to the parental allowance, receives the home care allowance available as an alternative to municipal day care. Another demotivating factor when it comes to the utilisation of the parental leave by fathers is that many mothers do not have a job to which they can return.

Statutory and contractual pay during maternity and parental leave

No comparative data are available about the provisions concerning *statutory or contractual pay* during maternity and parental leave. However, contractual pay is in all Nordic countries less common during the maternity and parental leaves than it is during sickness absences. Nor is there any need for contractual arrangements in Denmark and Norway owing to the 100% earnings replacement rate (except for cases where the employee exceeds the statutory cap on earnings). In Finland, about half of those receiving earnings-related maternity allowance received maternity pay at the beginning of the maternity allowance period. A Swedish study indicates that employers typically paid a small amount on top of the statutory allowance (Jansson et al. 2003).

Temporary absence to look after a sick child

Short absences caused by a sudden illness or need of care of a small child are in Finland and Denmark covered on a contractual basis. In Sweden and Norway, there is a special allowance roughly equal to the parental allowance. In Norway, receipt of this allowance is subject to a 10-day waiting period. In 2003, a total of 4.5 million days were covered under the Swedish system, which was equivalent to about one-tenth of the days covered under the parental

insurance system. (See Sosialdepartementet 2003; www.rfv.se.)

Home care allowance

Among the Nordic countries, only Finland and Norway have a *home care allowance*, a universally available cash benefit offering an alternative to public day care. In Denmark, municipalities provide varying levels of benefits (MISSOC 2003). In Finland and Norway, home care allowance is available to fathers whose youngest child is under 3 years of age. In Norway, the allowance is graduated into 5 compensation classes determined by reference to the number of hours that the child spends in day care (MISSOC 2003). Also Finland has a partial care allowance for working parents of a child under 3 years of age and for parents of a child attending preschool or primary school who work shorter hours to look after their child.

In both Finland and Norway, home care allowances are used widely, and therefore the share of children under 3 years of age who are in day care is small. At the end of 2000, home care allowance was being paid for 74% of Norwegian children aged 1 or 2 and for 62% of Finnish children. In Norway, the majority of the children qualified for the full allowance and thus did not attend public day care at all. In Finland, the partial care allowance has been utilised very little. Only a little more than 2,000 families were in receipt of the partial care allowance at the end of 2003. In the autumn of 2004, eligibility for the partial care allowance was extended to the parents of children attending primary school. (Ellingsæter 2003; RTV 2003.)

4 Institutional differences and incentive structures explaining the cross-country variation in the utilisation of benefits

In this section, we shall take a closer look at the structural differences of the social security systems of the Nordic countries with particular reference to how those differences explain the variation in the employment models and social security utilisation patterns described above. The analysis begins from the recognition that studies of the incentive structures of social security systems which focus on a single country make it difficult to see the significance of operational principles which have a wider area of application and which are not prone to change over

time. A comparative approach, on the other hand, helps to see how the incentives built into social security systems influence the behaviour of various actors, including the insured, employers and public authorities. Not only do social actors adjust their behaviour to the provisions governing social rights, benefit funding and eligibility control (Olsson et al. 1993), but social security is also constantly adapted in response to a consultative process between these actors and the public authorities. Hence, 'institutional incentives' can equally well be referred to as 'societal regulation by means of social security'.

4.1 Key institutional differences in operating principles

The pillar framework of social security and income caps on earnings-related benefits

One of the key differences between the social security systems of Finland and those of the other Nordic countries is the fact that in the latter statutory earnings-related benefits are subject to an income ceiling, which means that loss of earnings is compensated only to the extent that it does not exceed this ceiling. Finland applies no such ceilings on income, but the amount of sickness, maternity and parental allowances does increase on a sliding scale which results in a relatively lower rate of replacement for those with a higher income. The income ceiling and the earnings replacement rate together define the extent to which loss of earnings is covered by the public system and to what extent by labour market agreements.

Benefits based on labour market agreements are in European parlance commonly referred to as "second-pillar" social security. This includes employer-provided pay³ during sickness, maternity or parental leave which supplements statutory benefits, supplementary pensions funded by employers and collective insurance arrangements based on labour market agreements. Contractual sick pay is common in all Nordic countries, as are supplementary

pensions based on labour market agreements (except in Finland). In Denmark, however, relatively few of current pension recipients receive a supplementary pension. The third pillar of social security is made up of private insurance arrangements, which are often linked to tax incentives. The third pillar is not regarded as part of social security, and the expenditure on third-pillar benefits is not included in social expenditure.

The income caps imposed on earnings-related benefits can be seen as one major reason for the different way in which the pillar framework of social security is structured in Finland than it is in the other Nordic countries. The lower the cap is, the more demand and the more scope there is in the other Nordic countries for benefits supplementing the public provision. All Scandinavian countries apply income caps in the benefit systems, but only Sweden and Norway do so with regard to earnings-related pensions.

In table 4.1 and figure 4.1, we describe the benefits provided for loss of earnings from the perspective of two central factors defining the statutory provision available, namely the earnings replacement rate and the income cap on benefits. The highest level of income protection for persons on a small income in connection with sickness, maternity and parenthood is available in Denmark and Norway, where all of the loss in earnings is covered for low-income individuals. In Norway, even those with an average income enjoy a 100% rate of replacement. This means that there is no need to supplement the benefit provided during sickness and parental leaves, and consequently, that employers face no payroll costs at the lower end of the income scale. The only exception is the 2–3 weeks at the beginning of a period of incapacity, which the employer must cover. Hence, in Denmark and in Norway the public system gives preferential treatment to both low-wage employees and their employers. The income cap applied in the Swedish public system is higher than that applied in Danish system but lower than in Norway. The earnings replacement rate in Sweden has been 77.6% since July 2003. A good one-third of full-time wage and salary earners in Sweden exceed the income cap applicable to sickness allowances (OECD 2003, 67).

Figure 4.1 shows the gross replacement rate of sickness and parental allowances at various levels of income. The replacement rate represents the share that an allowance makes up of the recipient's gross

³ According to the ESSPROSS manual (Eurostat 1996), expenditure on sick pay should be counted fully as social expenditure. In an analysis of social expenditures in the Nordic countries, Finland is the only country where all expenditures on sick pay are included; the corresponding data for Sweden, Norway and Denmark only include the pay provided during the period which the employers are required to cover. Pay coinciding with a maternity or parental leave is not included in the social expenditure of any of the Nordic countries (www.nom-nos.dk).

Table 4.1. The sickness, parental and unemployment systems of the Nordic countries: Gross earnings replacement rates and income caps in 2004.

	Finland	Sweden	Norway	Denmark
<i>Sickness benefits, maternity and parental benefits</i>				
Gross earnings replacement rate	70	77.6/80.0	100 ¹	100
Income cap (no benefit available for income exceeding this limit), € per month ²	. ³	2 670	3 413	1 757
<i>Unemployment benefits</i>				
Gross earnings replacement rate	58	80 ⁴	62.4	90
Income cap (no benefit available for income exceeding this limit), € per month		2 082	3 413	1 955

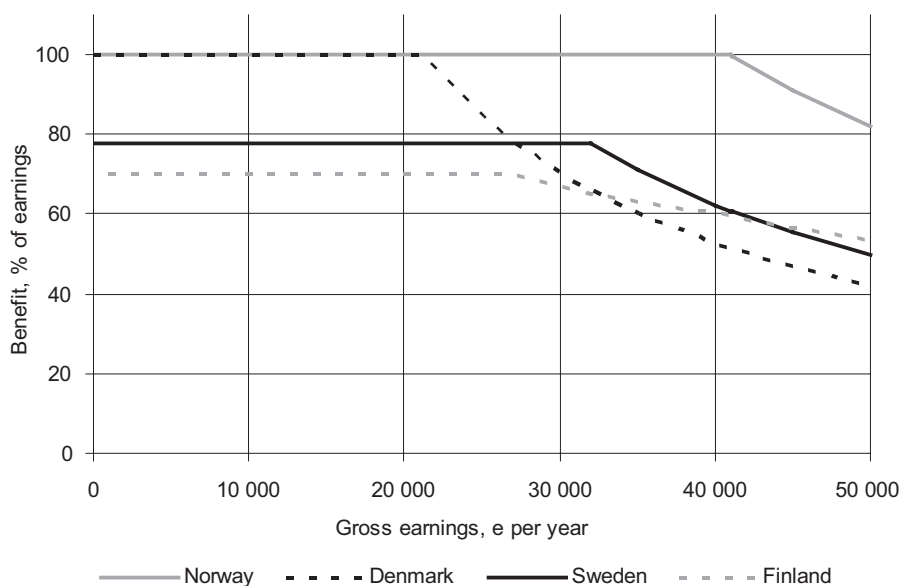
¹ For details about how the maternity benefits are scaled according to the length of payment, see table 3.3.

² European Central Bank middle rate for 11.8.2004.

³ The replacement rate is reduced gradually starting from monthly income of € 2,226.

⁴ The replacement rate is higher for the first 100 days.

Source: Socialförsäkringen i Norden 2004.

Figure 4.1. The gross earnings replacement rates of sickness and parental benefits in the Nordic countries, 2004.

Source: Socialförsäkringen i Norden 2004.

earnings. The analysis in figure 4.1 gives an overall picture of the effect of income caps on the relative roles of statutory provision and benefits based on labour market agreements. The earnings replacement rate afforded by the Finnish public system to those at the bottom of the income scale is the lowest in all of the Nordic countries. Starting with those at the middle of the scale, the Finnish replacement rate exceeds the Danish rate. At the high end of the income scale, the replacement rates of Finland and Sweden are roughly the same. It should be noted that the analysis differs from income distribution studies which focus on the amount of disposable income while in receipt of a benefit as a share of one's previous net earnings (cf. NOSOSKO 2004, 98).

The target earnings replacement rate of disability pension is approximately the same in Finland, Sweden and Norway, between 60% and 64% (ETK 2002). In Denmark, statutory disability cover is comprised exclusively of the national pension, which, following the reform of 2003, is equal to the maximum unemployment allowance for persons with no previous income (Sociale ydelser 2004). In Sweden, income cap on disability pensions is roughly the same as on sickness and parental allowances. The income cap applied in the Norwegian earnings-related pension system is higher than its counterpart in the health insurance system. Any earnings exceeding the cap are taken into account at one-third of their value, up to a certain amount (ETK 2002).

Benefit alternatives available to employees

Which benefit an employee will end up on when faced with different labour market situations and various personal needs and risks is influenced by a number of other factors besides the continuity of and the level of income provided by benefits. First, eligibility for health-related benefits is largely determined by how medical criteria for eligibility are defined and how fulfilment of those criteria is controlled. In each of these respects, there are considerable differences between the individual Nordic countries. We shall return to these differences later.

Employment security and the administrative practices relating to it influence the choices of both employers and employees. The strong employment security seen in Sweden and Norway, in particular, makes health-related benefits a more viable option,

while the relatively lax redundancy protections in Denmark, combined with generous unemployment benefits, channel recipients towards unemployment benefits. According to an OECD metric, employment security in Finland is weaker than in Sweden or Norway but significantly stronger than in Denmark (see Madsen 2002).

According to table 4.1, insured persons in all Nordic countries find it more advantageous to draw health insurance rather than unemployment benefits. This is the case even if we limit the analysis to statutory benefits. In Sweden and Denmark, the earnings replacement rates and income caps of sickness and unemployment allowances are quite similar, but generous sick pay and (in Sweden) the availability of collective insurance arrangements make health insurance a much more attractive option. At the same time, we must bear in mind that the unemployment protection system also comprises benefits which supplement the statutory provision, mainly redundancy benefits of various kinds, which are based on labour market agreements.

Employer responsibilities

There are significant differences between the Nordic countries in the allocation of financing responsibilities for statutory social security between the government, employers and insured persons (table 4.2). This difference is most evident in the shares of social expenditure which are financed with general revenues as opposed to employer contributions, whether it be in the form of earmarked taxes or genuine contributions. The biggest difference in this regard is seen when comparing Denmark with the other Nordic countries. Danish employers financed as little as 10% of the total expenditure on social security in 2002. In Finland and Sweden, the employers' share of financing was roughly four-fold (39% and 42% respectively). Yet, even though Danish employers paid such a small share of the social security expenditure, the unit cost of labour was no smaller in Denmark than in the other Nordic countries. According to the EU's Labour Cost Survey, the total cost of labour per hour in 2000 was EUR 27 in Denmark, EUR 29 in Sweden and EUR 22 in Finland. What the high unit cost of labour, combined with low employer contributions to social security, presumably means is that the burden of tax-financed social security for employees is factored into the level of wages.

Table 4.2. Indicators of social expenditure and the financing of social security in the EU and the Nordic countries.

	Finland	Sweden	Norway	Denmark
<i>Social expenditure as % of GDP (2002)</i>	26.4	32.5	26.5	30.0
<i>Social expenditure per capita, € adjusted for purchasing power parity (2001)</i>	5 785	7 951	8 183	7 809
<i>Financing of social expenditure by source (2002), %</i>	100	100	100	100
General revenue	43	47	58	62
Employers	39	42	26	10
Insured	11	9	14	22
Other	7	2	1	6
<i>Total labour costs, € per hour worked in the private sector (2000)</i>	22.13	28.56	..	27.10
Of which (%):				
Total social security contributions paid by the employers	20.5	29.6	..	8.0
Statutory social insurance contributions	18.3	22.0	..	1.0
Contractual social insurance contributions	0.5	6.3	..	6.7
Other staff-related costs	1.7	1.3	..	0.3

Sources: NOSOSKO 2004, tables 10.4, 10.5, 10.9; European Communities 2003.

We may deduce from table 4.2 that differences in labour costs do not significantly explain the variation in the level or structure of employment between the Nordic countries. In this study, I will therefore concentrate on the incentive structures influencing employer behaviour, focusing primarily on the share of the absence-related costs borne by employers.

From the employees' point of view, it is probably of no great importance in what proportion the compensation being paid to them is divided between statutory and contractual benefits. For employers, however, there is a big difference whether the employers' share of the funding of benefits is based on collective responsibility, paid individually out of each employer's own funds, or organised on the basis of contingency insurance. The principal rule is that statutory provision is funded collectively, which in practice can mean a funding method based on the collection of premiums or tax-like payments, or on appropriations from general tax revenues. Yet there is at least an attempt in Finland and Sweden to strengthen the insurance basis of the statutory

systems, i.e., to increase their transparency by accentuating the link between contributions and benefits (SOU 2002; STM 2002). Continued pay during sickness absences and maternity leaves provided at the same time as statutory benefits is naturally funded entirely by the employer, as are many of the supplementary pensions topping up the statutory pensions. Benefits based entirely on contingency insurance include collective life and health insurance arrangements for employees.

In discussing the supplementary benefits funded entirely by the employer, we must make a clear distinction between *benefits based on labour market agreement* and *benefits based on statutory liabilities imposing direct costs on the employer*. Benefits based on labour market agreements are, for the employer, not only a cost factor but also a conscious decision by the enterprise or sector of industry to invest in the well-being of the workforce and thereby promote economic performance and gain an advantage in the competition for good employees. By contrast, the payments which employers are under the statutory provision required to make while the

employee completes a specified waiting period are intended to prevent overuse of the benefit. The most typical example of such payments is the sick pay which employers in all the Nordic countries must provide during the first 2–3 weeks of a sickness absence. Other examples include the requirement on Danish employers to pay unemployment benefit for the first two days of unemployment, or the potentially substantial costs which Finnish employers – depending on the size of the enterprise or the number of employees – may incur in respect of disability and unemployment pensions.

In both Finland and Sweden, there have lately been discussions about statutory requirements on employers to pay continued wages during sickness or parental leave and to some extent also about the benefits based on labour market agreements. There was intense debate in Sweden about extending the statutory employer-covered period in connection with sickness absences, because such a move was feared to make employers less inclined to hire new employees (SOU 2002). In Finland, this question is closely linked to attempts to increase employment in labour-intensive sectors by such measures as improving the possibilities of persons with a weak labour market position to find and retain work. The potential cost that the employer may incur in connection with maternity or with temporary or permanent incapacity for work can be a major obstacle not only to the employment of those who are at particular "risk" for such events, but also more broadly to promoting the employment of particular groups of workers. This can lead to distortions that are detrimental to both individuals and the greater good of the labour market in so far as those at particular "risk" are marginalised because of certain collective features and are not judged on the basis of their personal abilities or social skills (e.g. Jansson et al. 2003).

4.2 Disability benefits: the integration of persons with functional limitations, restrictions on benefit utilisation and obstacles to employment

Partial benefits and their effect on employment participation and benefit utilisation

The fact that partial benefits are used as widely as they are in Sweden and Norway raises the question, to what extent are the partial benefits available in the Scandinavian countries an instrument designed

to support the employment of workers with functional limitations and to what extent are they a response to other needs for flexible work arrangements felt by employees or employers. How fine a distinction is it possible to draw between different degrees of disability based purely on medical criteria? Assuming that the partial benefits provided for partial disability serve their intended purpose, they do at least provide a source of subsidy for both employers and employees.

The partial benefits which exist in the Scandinavian countries, as well as the assessment of partial disability, are based on different principles than those applied in Finland. In the Scandinavian countries, the main principle is to allow those with functional limitations to make the most of their remaining work capacity. Also in Finland, the emphasis has in the last 10 years been on the remaining work capacity rather than on incapacity for work. However, the only kind of sickness absence available to sickness allowance recipients is a full-time absence. In the case of disability pensions, only one category of part-time absence is available (in addition to full-time pensions).

In Sweden and Norway, the partial sickness allowance and the partial disability pension can be seen as benefits subsidising employment which are not as stigmatising as the various "in-work-benefits" aimed at supplementing incomes or activating unemployed persons that are available in other countries (cf. STM 2002, 90–94). For example, it has been found that in Sweden recipients of partial benefits are often female municipal employees with an immigrant background. Partial sickness allowance may also be a convenient pathway to retirement for elderly and chronically ill people (SOU 2002; Hemmingsson 2004). For employers, a partial benefit may be a flexible way to retain functionally limited employees that may come in particularly handy when labour is in short supply.

The Norwegian partial benefit can partly be seen as a form of direct subsidy to employers. This feature is particularly prominent in cases where an employee's work input is reduced due to illness although the employee works full-time. Such features can also be seen in the *aktiv sykmelding* (active sick leave) available in Norway. Under this arrangement, employees can achieve reintegration into their place of work while drawing a benefit payable to low- and middle-income individuals at a rate of 100% of earnings. This allows employers to retain for 12

weeks, at no cost to themselves, a worker whose input, while reduced by functional limitations, is most likely significantly above zero. In 2001, active sick leaves were taken by about 37,000 persons, most of whom received a partial benefit combined with part-time employment (RTV 2003, 61).

Following the reform enacted in 2003, the Danish pension system no longer provides any possibility to receive a partial pension. The new Danish system appears to be unique in Europe in taking full advantage of the remaining work capacity of those who have some left under normal terms of employment. This means that people are not compensated for partial loss of their capacity for work but are paid a full or nearly full compensation for continuing to work at a level appropriate to their functional limitations. Municipalities are required to find a suitable *flexjob* for persons whose work capacity has been permanently reduced. Workers are paid at least the applicable wage specified by the collective agreement regardless of their work input. Half or two-thirds of the wage is paid back to the employer by the municipality. If we examine this arrangement from the employer's perspective, the additional wage cost incurred by the employer in the form of a top-up to the minimum wage is by and large commensurate with the worker's productivity and thus creates no significant additional cost burden for the employer.

Seeking to increase the work input of benefit recipients

The Scandinavian countries currently share a tendency of creating active labour market alternatives to early retirement pensions and benefits. In Sweden and Norway, the goal has been to increase the utilisation of partial benefits at the expense of full-time absence, and to bring out a greater work input from those in receipt of partial benefits. Amendment of the provisions governing sickness absences was under review in Sweden, with the proposal being to make partial benefits the primary option right from the onset of work incapacity (Eklund et al. 2004), but the amendment was abandoned. (In 2005, a law amendment was introduced in which the partial allowances were given primacy by making part-time benefits more attractive in terms of the direct costs incurred by the employer.) In Norway, a similar amendment was implemented by an act which became effective in July 2004. Norway has also had some success in increasing the employment

participation of those receiving a partial disability pension (RTV 2003). Denmark has taken the greatest strides in using activation measures as an alternative to disability pensions, thanks to such measures as the introduction of the *flexjob*, which was referred to above. Using the remaining work capacity of a worker has not remained merely wishful thinking but has been adopted as an operative principle while managing to maintain a distinctively Danish high level of provision.

The ability to combine activation measures and full or part-time benefits in a variety of different ways, which is available in all of the Nordic countries except Finland, points up the degree to which the Finnish system is still mired in categorical either/or thinking when it comes to employment participation and absence from work. Also in Finland, regarding the assessment of work disability, steps were taken as early as the mid-1990s to prioritise the remaining work capacity over incapacity for work, and to stress the primary role of rehabilitation (when the temporary disability pension was recreated as the rehabilitation subsidy). However, these steps have had little practical effect, among other reasons because work suitable for a person with a reduced work capacity has not been available or the benefit system has not been geared towards supporting the part-time employment of persons with functional limitations.

Improvements in administrative practices and eligibility controls

Sweden has in recent years dedicated particular attention to improving the administrative practices relating to the claims for health-related benefits, strengthening the links between decision-makers and providers of funding, and ensuring the uniform treatment of all clients. In a four-country comparison of Germany, Finland, Sweden and the Netherlands (RFV 2003a), a group of Swedish researchers found that Sweden does not have a comprehensive, nationally applied set of administrative guidelines or controls relating to the evaluation of work incapacity. As a major shortcoming of the Swedish system, they identify the rudimentary nature of the occupational health care system and its virtual lack of involvement in sick leave decisions, the monitoring of health and the initiation of the rehabilitation process. On all of these measures, the researchers give high marks to the Finnish and German systems.

Following a spate of official reports and studies, Sweden launched a series of reforms aimed at cutting the incidence of sickness absences to half by 2008. Administrative practices have been streamlined by merging the National Social Insurance Board and the local Social Security Offices into a single organisation similar to the way the Finnish Social Insurance Institution is administered. Sweden is also aiming to strengthen the guidance role of local insurance doctors (again, similarly to Finland) and to achieve greater public insight into the information on sickness absences by requiring enterprises to make such information public in a special statement of human resources.

In Denmark, authority for decision-making and implementation has been increasingly delegated to the municipalities while organising the administration on the basis of performance management. A number of reforms were carried out during the last 10 years, introducing a single-window approach to the benefit provision. The municipalities also carry financial responsibility for the payment of benefits. The ultimate cost to the municipality depends on the emphasis the municipality places on active measures as opposed to passive ones, which is compared to the performance of all Danish municipalities. According to Einar Øverbye (2004), these steps have meant a shift from substantial social rights to procedural social rights, whereby insured persons are entitled to a solution to their problems, but the authorities will determine, in consultation with the insured person, by means of which benefit or procedure this right is realised. This creates extra work for Danish employers, because they must interact separately with each municipality in which their employees live. (Analyse af det danske sygefravær 2003, 38.)

Generally speaking, there seems to be little danger that expenditure on health-related benefits will increase uncontrollably in Finland. The utilisation of benefits is controlled by such factors as the central role of occupational health care and the clear division of duties between a decentralised eligibility determination system and centralised guidance and supervision practices. The use of sickness allowances is also restrained by a centralised system of eligibility determination for disability pensions, which has a feedback effect on decisions concerning eligibility for the benefits preceding the disability pension.

Employer responsibilities and disincentives to employment

All of the sickness allowance systems of the Nordic countries, with the exception of Finland's, have been designed to accommodate for the fact that *requiring the employer to provide sick pay at the beginning of each period of incapacity* can lead to indirect discrimination in hiring against chronically ill persons. Special high-cost protections (*högriskskydd*) have therefore been built into the systems, which makes it possible to exempt an employer from the responsibility to provide sick pay provided the employee can present a certificate from the social insurance authority attesting to a chronic illness which is considered to pose a significant risk for repeated sickness absence. The insured person must apply for this protection from the relevant authorities. The employer receives sickness allowance as compensation for sick pay during the initial period of incapacity for work. In 2002, this provision was applied to about 7,000 insured persons in Sweden and to about 12,000 insured persons in Denmark (DST 2003b; www.rfv.se).

The Danish system also accounts for the risk of particularly high rates of unforeseeable sickness absenteeism affecting specific *small employers, who can opt for a voluntary insurance* against the costs arising from the initial two-week period of employer-provided pay. In 2002, compensations under this voluntary insurance arrangement were paid for about 116,000 periods of incapacity (DST 2003a), of which the majority were short absences of under two weeks. A one-day waiting period was introduced in 2004 (ADIR 2004). Sweden has also had a similar voluntary insurance option for small employers, but due to a high contribution rate, it has not been popular (Socialdepartement, oral communication). The possibility of introducing easier terms of insurance and thereby making the option more popular is currently under review.

In all of the Nordic countries, public-sector employees are entitled to the longest period of *sick pay*. In Denmark and Norway, public-sector employees are paid the difference between their pay and the sickness allowance as long as they remain on sick leave. In Sweden, public-sector employers provide up to 80% of pay even on earnings exceeding the earnings cap. In the Finnish public sector, employees are on full pay for the first two months and on 75% of pay for the following few months.

Particularly interesting from the perspective of this study are the contractual obligations concerning sick pay in the private sector in general and in the labour-intensive low-wage industries in particular. To start with, it should be noted that the sickness allowance provides full compensation for loss of earnings for low-income workers (in Denmark) and low- and middle-income workers (in Norway). According to NOSOSKO (2004), in *Denmark's* private sector, sickness allowances for salary earners are normally topped up to 100% of pay, while wage earners usually receive full wages or a certain maximum share of full wages for four weeks. In *Norway*, sick pay is not very common in the private sector, apparently because of the principle of full compensation up to a relatively high level of earnings applied in the statutory provision system. In *Sweden*, employers pay 10% of the regular pay on top of the sickness allowance for three months following the sick pay period, which brings the total rate of replacement up to 87.6 percent. This compensation is also provided for the part of pay exceeding the earnings cap. The benefits provided under labour market agreements are somewhat more generous for salary earners than wage earners. This deficit is made up to some extent by a collective health insurance arrangement for private-sector wage earners. In *Finland*, private-sector employers usually provide sick pay for 1–3 months. The median duration in the manufacturing and service sectors is about six weeks.

In conclusion, when sickness allowances, contractual pay and insurance compensations are all taken into account, *Finnish wage and salary earners have the lowest level of income security*. One exception to this are the relatively high-income employees in the Danish private sector, whose total level of provision may towards the end of the sick leave drop below the Finnish level. Private-sector employers in Finland, however, *pay a relatively higher proportion of their employees' income security during incapacity, especially in the low-wage sectors*, than private-sector employers in the other Nordic countries (see also Hytti 2006). The reason for this is not that the level of contractual provision is high but that the difference between sick pay and the level of statutory provision is higher in Finland than in other Nordic countries due to the comparatively low level of statutory provision available to low-income workers.

4.3 Incentives affecting the employment status of aging workers

Economic incentives for employees

In the foregoing, we noted that there are no major differences in the level of statutory pensions between Finland, Sweden and Norway. Hence, there is also no great variation between these three countries in the economic incentives for retirement. However, a different picture emerges if we include in the analysis the contractual supplementary pensions common in Sweden and Norway but rare in Finland. In Sweden, these pensions cover about 90% of wage and salary earners, compared to 40–60% of Norwegian private-sector employees. In both countries, the contractual pensions have been funded entirely by the employers. The pensions are also provided on the same scale of partial disability as statutory benefits. (ETK 2002.)

A high level of contractual provision supplementing the statutory disability pension cover is undoubtedly an important incentive for Swedish and Norwegian employees to seek retirement on a disability pension. In Finland, the level of provision will typically be lower due to the lack of similar supplementary provision and consequently smaller economic incentives. In Denmark, the full disability pension is equal to the maximum unemployment allowance. Retirement earnings decrease the pension, which probably makes *flexjob* nearly always more advantageous financially compared to a situation where a pensioner has small incidental earnings. On the other hand, economic incentives cannot have a huge impact in Denmark, because disability pension is only available to persons with no remaining capacity for work and is subject to an extremely stringent activation and rehabilitation process. This gives activation a secondary role of controlling the utilisation of benefits.

While economic incentives no doubt contribute to temporary or permanent retirement on disability benefits in both Sweden and Norway, we should not conclude from this that the high level of benefits is the ultimate reason behind retirement. Rather, the salient point is the availability of different benefit options, which is largely the result of deliberate policy choices. Welfare incentives have been designed to be compatible with the "commitment to full employment" adopted in both Sweden and Norway, and therefore unemployment benefits are not the principal means of adjustment to labour

market problems. In Finland, the mechanisms governing the use of benefits have to a large extent worked to the opposite effect, which has resulted in thousands of persons being listed as long-term unemployed, who, in light of their health and functional capacity, would be entitled to a disability pension.

Employer incentives and experience rating

In *Sweden*, contractual benefits have been increasingly used to cut workforces in the same manner as the Finnish unemployment pension. The cost to the employer is 40% lower than the preceding wage or salary, and the employer can also sidestep the seniority provisions of the strict Swedish employment protection legislation. In 1999, contractual arrangements were the primary source of income for nearly a fourth of the 60 to 64-year-olds who left the labour market. Some of the differences of these contractual arrangements to the Finnish unemployment pension are that they are taken up more by salary and higher-income earners (OECD 2003, 74) and that a contractual pension does not preclude employment in a new employment relationship (NOSOSKO 1999).

Finland is the only Nordic country applying employer-specific experience rating in its statutory pension system. Experience rating is applied in the disability and unemployment pension systems (both in the public and private sectors). Arguments have been presented both in favour and against the employment incentive effect of this practice. A working group on employment appointed by the Finnish Government (VNK 2003) took the view that experience rating in connection with disability pensions makes it more difficult for workers at a great risk for disability, such as ageing workers or those with functional limitations, to find employment. The working group also argued that high experience-rated payments for disability pensions are in conflict with the principle of causation, according to which payments should be reduced when an enterprise has little ability to influence the likelihood that a certain risk will be realised. On the other hand, it has also been suggested that experience rating can act as a motivating factor for employers to invest in the maintenance of health and work capacity and in the rehabilitation of their workforce, and to adjust workplace assignments to functionally limited workers' abilities (ETK 2003).

A private-sector employer with a staff of 50 or more (which in Finland is considered to be large employer) pays a share of the capital value of disability and unemployment pensions from the beginning of the pension period to the old-age retirement age, which increases with the size of the firm. For employers with a staff of 50, the share is equal to zero, rising to 80% in firms with a staff of 800 or more. The employer share only applies to companies operating under the Employees' Pensions Act and to certain pension funds (ETK 2003; Lindell 2004). In the pension system for municipal employees, this arrangement is more analogous to the principle of causation, with a 60% share of pension funding being applied to unemployment pensions but a 20% share to disability pensions (Tiilikka 2004). The rules for state employees resemble those for private-sector employees, but the payments only apply to hypothetical future pensionable earnings calculated from the date of the pension contingency (Kostiainen 2003). The pension reform enacted in 2005 changed the technical aspects of this system to some extent.

A large percentage of the workers are employed with companies or organisations that are required to make contributions towards pension costs. In the private-sector, nearly one third of insured persons were employed in organisations (with a staff of 200 or more) required to make a significant contribution to pension costs. Municipal employees are nearly all covered under these provisions, but the disability cost burden for the employers is smaller (Tiilikka 2004). No data is available on coverage among state employees, but considering the typically large staff numbers at state workplaces, the coverage is likely quite high.

In the Finnish debate, particular attention has been drawn to the disincentive effect that experience rating is alleged to have on the hiring of ageing workers. Some steps have in fact been taken to decrease the risk incurred by an employer hiring a worker who is over 50 years of age by introducing special provisions covering cases where a worker becomes disabled within three years of hiring (Lindell 2004). The potential cost to the employer for hiring a younger person with a high risk of disability has received little attention, even though the younger the person is, the greater the cost will be, should the risk be realised. There is a gaping difference between the thinking in Finland and in the Scandinavian countries when one considers that the latter have seen it necessary to exempt employers from the 2–3 week employer-covered period in connection with

sickness allowances provided they hire a chronically ill person prone to recurring absence from work. In Finland, employers may have to pay 80% of the capital value of the pension until the recipient reaches the old-age retirement age, which may be several decades away.

Along with the employer-covered benefit period, another factor that has been considered to result in discrimination in hiring for ageing workers is the practice of levying a *pension contribution that increases with age*. In Finland, this practice will be largely discontinued with the pension reform of 2005, although the basic contribution levied from employers subject to experience rating will remain to some extent age-dependent (Lindell 2004). In Sweden, the supplementary pensions based on labour market agreements are funded with contributions linked to age. The contributions for the oldest workers can be quite substantial (OECD 2003).

4.4 Some differences in incentive structures of the unemployment protection systems

In Finland, the incentive question of social security has been examined mainly from the labour supply perspective, which has directed the attention to the incentives of the unemployed to accept work. From this perspective, the most relevant income transfer mechanisms are unemployment benefits and other supplementary transfers such as housing benefits and income support (Parpo 2004). A number of changes have been made to these benefits in the last decade in order to increase their incentive effect, but these changes have also had the effect of weakening the income security of those who have not managed to find employment (VNK 2001, 10). According to calculations comparing households, those receiving minimum benefits are most likely to face incentive traps. Receiving minimum benefits from different sources, each applying separate means testing, combined with taxes and service charges, may create situations where it makes financial sense not to accept an offer for short-term employment (Viitamäki 2001; STM 2002). We may presume that the systems of the other Nordic countries contain fewer such incentive traps, since there is less means testing on the whole. However, the tax wedge effect may be greater in the other Nordic countries than in Finland, which could partly explain such phenomena as the greater prevalence of

part-time work in the Scandinavian countries (cf. Freeman et al. 1995).

An interesting point to note in the Danish incentivisation practice is that the combined length of the earnings-related unemployment allowance and earnings-related activation benefits is a standard 4 years irrespective of the timing of the activation measures. In Finland, the eligibility end point is moved forward when a person participates in activation measures. In Denmark, training and education can thus be geared to the unemployed person's long-term needs, compared to Finland, where the decision to implement activation measures often measured to the desire of the unemployed person or of the local authorities to delay the end of the earnings-related unemployment benefits (Bredgaard et al. 2003).

Two major differences between Finland and the rest of the Nordic countries are that nearly a half of the unemployed rely on the means-tested labour market subsidy for their subsistence (Vakuutusvalvonta and Kela 2004), and that the activation rate among the unemployed is significantly lower than in Sweden or Denmark (Työministeriö 2003). Despite the dismantling of the incentive traps associated with the minimum benefits, a total of 165,000 persons were in receipt of the labour market subsidy as of April 2004, which is equivalent to about 5% of the working-age population. Over a period of five years, the number of persons in receipt of the labour market subsidy had decreased by no more than 7,700 (4.4%), and this decrease was due almost entirely to transition into retirement facilitated by the public authorities (through such measures as the screening of the long-term unemployed for their remaining capacity for work). Indeed, it is difficult to see, at the macro level, any significant decrease in the number of unemployed persons subsisting on minimum benefits that could be attributed to the elimination of the incentive traps.

4.5 The employment effect of family benefits

Like other income security benefits, family benefits impact the functioning of the labour market via institutional incentives and disincentives targeting both the insured and the employers. International studies have shown female employment participation to have a strong positive correlation both with fertility rates and the resources allocated to the as-

sistance of families. In all of the Nordic countries, long family leaves and comprehensive day care services promote female employment participation, even as the care services, being provided by public organisations, create employment opportunities in the public sector.

Home care allowance and its influence on labour force participation

Finland diverges from the other Nordic countries especially in that parental benefits are less flexible and afford less room for individual freedom of choice. Another difference can be seen in the fact that the Finnish system provides a strong incentive to the home care of small children while ensuring that all parents of children under school age enjoy a strictly defined subjective right to municipal day care services. Typically employed full-time, Finnish women usually leave the work force altogether after the parental leave is over to look after their child while receiving the home care allowance, whereas Norwegian women, typically employed part-time to begin with, maintain a foothold in the labour force (Baklien et al. 2001). Long-term reciprocity of the Finnish home care allowance also seems to pose a risk of marginalisation from the labour market, because the incidence of long care leaves is higher than average among young mothers with a low level of educational attainment, who often have no job to which they can return (Lammi-Taskula 2004).

Disincentives to employment faced by women of childbearing age

There has been a lively debate in Finland concerning the direct cost of childbirth and child care incurred by service-sector employers with a large female workforce. However, detailed analyses of the costs and their possible disincentive effect on female employment are not available. According to the service employers (Palvelutyönantajat 2003 and 2004), important cost factors include the sick leaves taken during the pregnancy, the hiring and training of substitutes, the paid holiday time and holiday pay accruing during the maternity leave (some of the cost of which is compensated to the employer), and the maternity pay which may have to be provided under collective bargaining agreements. At the same time, it should be noted that such collectively bargained pay is not available at all in the lowest-wage, most labour-intensive sectors, such as

commerce, cleaning, facilities management or hotel and catering.

It is difficult to produce a clear comparison to see whether Finnish employers must cover more costs relating to childbirth and child care than employers in the other Nordic countries. We are not aware that the other Nordic countries would have an arrangement similar to the Finnish practice of compensating employers for the costs of annual leaves. In other respects, it may be presumed that the total employer cost of maternity and parental leaves and the care of sick children may be somewhat smaller in the other Nordic countries than in Finland. This assumption is supported by the presence of the full compensation principle in the statutory provision systems of Denmark and Norway, the statutory compensations provided in Sweden and Norway for the temporary care of a sick child, and the higher level of statutory cover available in the Scandinavian countries for sickness absences during pregnancy. In Denmark, the risk that small employers may face when it comes to the accumulation of sickness leaves during the pregnancy is mitigated by the availability of a voluntary insurance arrangement covering the period in which the employer is responsible for providing sick pay (see section 4.2).

5 Summary and conclusions

5.1 Objective

This study set out to examine the differences between the "employment and income security models" of Finland and of the other Nordic countries. The objective was to describe such differences in greater detail and to discover how the institutional differences in the individual countries' income security systems can help to explain the observed differences in employment. Particular attention was paid to the structural elements of social security which relate to the possibility of ageing workers to continue working and to combine flexibly paid employment with income security benefits, and to the employment thresholds facing persons whose position in the labour market is weak. The starting hypothesis was that by comparing the Nordic countries with respect to the "institutional logic" of the social security systems, we might identify such incentives for the use of income security benefits which would not emerge in a study focusing on a single country.

5.2 Participation in paid work and social security utilisation in the Nordic countries

If the goal is assumed to be a high rate of employment combined with a long working career and a relatively high rate of work input measured in the number of hours worked, *Denmark* comes out as the winner in this Nordic comparison (excluding Iceland). In Denmark, the employment rate (75.1% in 2003) and the total employment life expectancy (38 years) are both at the same level as in Norway. However, the Danes have a greater involvement in working life, as shown by the number of hours worked per employee (1,637 hours as opposed to 1,524 hours). On the other hand, Denmark looks more vulnerable to adverse developments in the employment rate because of the larger presence of young workers, especially students, in the employed population. The utilisation of income security benefits in Denmark is difficult to compare to other Nordic countries, because the system is structured differently. Taking the broadest view, the number of recipients of benefits and participants in active labour market measures was second only to Finland. A distinctive feature in Denmark is the high level of income security combined with stringent activation rules, which is also quite effective in limiting overutilisation of the benefits.

Norway has the lowest number of hours worked of all Nordic countries, a high employment rate and long working careers. The first finding is explained by the high rate of part-time employment among women. At the same time, Norwegians of working age use income security benefits less than their counterparts in the other Nordic countries when the number of recipients is compared to the total population. The income security benefits that are provided are nearly exclusively related to illness, and consequently Norwegians have the highest rate of utilisation of health-related benefits.

In *Sweden*, the employment rate is close to the level of the other Scandinavian countries (72.9%), but there is more slack in it because the absenteeism rate of the Swedish workforce is the highest in the Nordic countries. According to a labour force survey, the share of workers absent for the entire survey week (including holidays) was 17.1%, compared to 13.2% in Denmark and 14.5% in Finland. The employment rate among ageing workers was higher in Sweden than in any other EU country, but here, too, we must take into account that the effective

employment rate is substantially lower. Health-related income security benefits were used a little less than in Norway but significantly more than in Finland. Conversely, Swedes were more than twice as likely to be unemployed or participating in activation measures as Norwegians, but about half as likely as Finns.

Finland stood out the most in terms of the employment rate and the utilisation of income security benefits. To simplify a bit, one can say that Finnish workers are either employed full-time or not at all (being unemployed or outside the labour force). This point is highlighted both by the total employment life expectancy, which is lower in Finland than in any other Nordic country (32.5 years for men and 31.6 years for women), and by the number of hours worked per employed person, which is the highest in the Nordic countries (1,682 hours per year). The number one problem in Finland is unemployment and the resulting high rate of utilisation of income security benefits and activation measures (about 12.6%). On the other hand, there are far fewer recipients of health-related benefits. Less than 10% of working-age Finns received sickness and rehabilitation allowances or disability pensions, compared to more than 13% of working-age Swedes and 15% of working-age Norwegians.

The difference in the distribution of paid work between Finland and the Nordic countries is exemplified by a calculation which illustrates how much the number of persons in paid employment would increase in Finland if the number of hours worked were divided per employed person in the same way as it is in the other Nordic countries. If adjusted to the Swedish figures, the Finnish employment rate would climb by 4 percentage points, and if adjusted to the Norwegian figures, by 7 percentage points, which would practically wipe out the difference in the employment rates. An adjustment to the Danish figures, however, would only produce an increase of 2 percentage points in the Finnish employment rate.

5.3 Which factors relating to the income security systems of the Scandinavian countries reinforce a high rate of employment?

Flexible combining of work and benefits

Nearly all Scandinavian countries allow workers to combine work and benefits flexibly by decreasing or increasing the number of hours worked. In terms of family benefits, this means individual freedom of choice in the timing of family leaves. In Finland, similar flexibility features have been introduced cautiously.

The ability to combine work and benefits flexibly, which is inherent in all of the Scandinavian benefit systems, bespeaks of the totally different philosophy behind the systems when compared to the Finnish systems. In Finland, full-time transition from work to benefit reciprocity or vice versa is still the prevailing idea even if there have been some legislative changes which have broadened the range of part-time benefit options. The other Nordic countries focus much more on boosting the work input and increasing the number of hours worked as opposed to raising the number of workers. It is difficult to say what impact a substantial increase in the availability of various partial benefits and the addition of individual freedom of choice would have in Finland, where full-time employment is the norm. However, it is likely that injecting greater flexibility into the income security system would bring about greater flexibility also in the labour market.

Incentives vs. control

The level of income security is lower in Finland nearly across the board than it is in the other Nordic countries. In the case of health-related benefits, this is partially due to a virtual lack of contractual supplementary benefits. In Sweden and Norway, for instance, the generous level of statutory and supplementary pensions is no doubt produces a major incentive to the conceptualisation of labour market problems in medical terms. Health-related benefits are also in Finland usually a better deal for the insured than unemployment benefits, but the highly-effective controls on benefit reciprocity have prevented their overutilisation. Yet at the same time, Finland lacks mechanisms that would help unemployed persons with functional limitations to receive the treatment and rehabilitation they need in time.

In Denmark, overutilisation of health-related benefits is checked by an incentive structure which makes it financially advantageous also for the local authorities providing the benefits to refer people primarily to activation measures. From the insured person's point of view, the criteria for disability pensions are very strict specifically because of the priority accorded to activation measures. Rather than being just encouraged to work, persons with functional limitations are in effect being required to work, with everyone except those with no remaining work capacity being offered at least a *flexjob*. The Danes' generous approach to the level of income security is reflected in the fact that *flexjob* workers are paid the prevailing industry wage, at least half of which is refunded to the employer from general revenues.

Supporting those disadvantaged in the labour market

There is a structural difference between the Finnish social security system and those of the other Nordic countries in how the responsibility for the income security of those with the smallest wage or salaried incomes is divided between society and the labour market, and in how this division of responsibilities impacts on the employment and employability of low-wage individuals and persons at a great risk of absenteeism or social marginalisation. The greater burden of responsibility assumed by society for the income security of low-wage individuals in the other Nordic countries results indirectly in subsidisation of the low-wage sectors of industry which often have a predominantly female workforce.

There are two different ways in which the other Nordic countries provide more support than Finland to those with a weak labour market position. First, the high or even full rate of compensation provided when the recipient's income does not exceed the income cap usually ensures that employers are not exposed to major financial risk should they hire workers who have some health limitations or who are in their prime childbearing years. The other Nordic countries have also enacted special high-cost protections for employers hiring a chronically ill person, which ensures that they will not be liable for statutory sick pay as the worker, if incapacitated because of the illness to which the protection pertains, completes the waiting period for sickness allowance. This approach has particular

relevance to the current debate in Finland dealing with the possible employment disincentives of the experience rating applied in the Finnish earnings-related pension system. Denmark also has in place an effective voluntary insurance arrangement protecting small employers from outsize risk of high sickness leave costs.

Institutional structures favouring those in the weakest labour market position is also seen clearly in the Nordic countries' unemployment protection systems in that the unemployed do not lose their right to earnings-related benefits and have to go on means-tested benefits as easily as they do in Finland. Ensuring that the unemployed have adequate income security and participate in activation measures while in receipt of earnings-related benefits helps to prevent marginalisation and promotes their employability. On the other hand, the strict activation rules in Sweden seem to have brought about a situation where the long-term unemployed often seek sickness allowance as soon as they have exhausted their eligibility for unemployment benefits. Denmark has managed to avoid this effect because activation is applied equally rigorously to sickness allowances as it is to unemployment benefits.

The possibility to use one's remaining capacity for work

One of the major differences between Finland on the one hand and Sweden and Norway on the other is that the latter two countries seek to integrate persons with functional limitations into the labour market with the help of partial disability benefits. In Finland, a partial disability benefit does not exist and partial disability pensions are used much less. The widespread use of partial disability benefits in Sweden and Norway probably also increases the overall use of health-related benefits. On the other hand, it is possible and even likely that the partial disability benefits decrease the overall use of health-related benefits and/or labour market benefits. In Finland, persons with functional limitations are probably more likely to become long-term unemployed, which may expose them to further deterioration of their health and working capacity.

The widespread use of sickness allowances and the medicalisation of labour market problems in Sweden and Norway have been criticised both domestically and internationally. However, there is a good argument to be made for a partial disability benefit

which is available, under appropriate restrictions, to those with functional limitations, especially considering the widely accepted need to improve employment possibilities for those disadvantaged in the labour market. Graduated according to the degree of work capacity, such assistance by definition supports the employment of persons whose qualifications are not sufficient for them to participate fully in paid employment. If the assistance holds advantages also for the employer, it can ideally help to make better use of the remaining work capacity, prevent hasty decisions about retirement and support the continued employment of especially ageing workers. Also, such assistance does not have a distorting effect on the labour market, which direct employment subsidies for the "less productive" often produce.

Denmark seems to be an exception also when it comes to the use of partial disability benefits. Despite the variety of ways in which it is possible to combine work and benefits, no significant overutilisation of the benefits has occurred. This is no doubt explained to some extent by effective activation policies, yet at the same time, such policies could not have emerged out of a vacuum but have been made possible by strong economic performance. Activation of persons unemployed for health or labour market reasons is typically successful or at least provides a realistic alternative as long as there are genuine employment opportunities.

An adequate level of provision without means testing

Over the last 10 years, much effort has been expended in Finland on discovering and dismantling the incentive traps related to minimum income security. The measures that have been introduced have both weakened and improved the economic circumstances of those relying on the minimum benefits. However, it is difficult to see on the macro level that these measures have significantly improved the employment situation of persons with a weak labour market position. In this case, too, a comparison to the other Nordic countries provides a fresh perspective. Disincentive problems can be prevented by an adequate level of provision, combined with effective activation policies, and by a societal will to take on as much of the responsibility as possible for the social provision of those in the weakest labour market position.

5.4 Final remarks

The basic philosophy behind the Finnish income security system has developed in the context of policies aimed at promoting productivity growth and structural change in society. Its aim has been to provide support to individuals who, for one reason or another, are temporarily or permanently outside paid employment. A new philosophy is now needed, one that can better accommodate work and social security to the benefit of ageing workers, families, persons with functional limitations, and others with a weak position in the labour market. The benefit systems must also be restructured to prevent marginalisation from work and discrimination in hiring and to offer flexible alternatives to combine work and benefits in different circumstances and at different times of life.

Ideally, flexible combination of work and social security can produce a more equal distribution of work between both different population groups and different stages of life. If such flexible combination arrangements are expanded to meet the needs that workers may encounter in any stage of their working careers, solutions may be found to the problem of increasing the employment rate at both ends of the age scale. The aim should be to create an incentive structure designed from the ground up to integrate those in a weaker position into the "normal" labour market, to promote employment and to allow people to use the work capacity they have remaining. It is in this respect that Finland should learn from the experiences of the other Nordic countries, even if the practices they have adopted may not be transferable as such to Finland.

References

- ADIR 2004. Sygedagpenge. Forsikring for private arbejdsgivere. Arbejdsdirektoratet. Available at: <www.adir.dk>.
- Analyse af det danske sygefravær. Available at: <www.bm.dk/publikationer/2003/sygefravaer/debatoplaeg/analyserapport.pdf>.
- Baklien B, Gulbrandsen L, Ellingsæter AL. Evaluering av kontantstøtteordningen. Oslo: Norges forskningsråd, Kultur og samfunn, 2001.
- Bergmark Å, Palme J. Welfare and the unemployment crisis: Sweden in the 1990s. *International Journal of Social Welfare* 2003; 12: 108–122.
- Bredgaard T, Jørgensen H, Larsen F. Tanskan työmarkkinapolitiikka. Peruspiirteet ja ajankoh-taista kehittämistä. In: Kananen P, Salonen-Soulie U, toim. Kannustavan sosiaaliturvan haaste. Helsinki: Sosiaali- ja terveystieteiden tutkimuskeskus, 2003: 55–73.
- DST 2003a. Arbejdsmarkedspolitiske foranstaltninger 2002. København: Danmarks statistik, Statistiske efterretninger, Arbejdsmarked 2003:29.
- DST 2003b. Dagpenge ved sygdom 2002. København: Danmarks statistik, Statistiske efterretninger, Sociale forhold, sundhed og retsvæsen 2003:13.
- Eklund M, von Granitz H, Marklund S. Deltids-sjukskrivning – individ, arbetsplats och hälsa. In: Hogstedt C, Bjurvald M, Marklund S, Palmer E, Theorell T, red. Den höga sjukfrånvaron – sanning och konsekvens. Stockholm: Statens folkhälsoinstitut, 2004: 83–121.
- Ellingsæter AL. The complexity of family policy reform. The case of Norway. *European Societies* 2003; 5 (4): 419–443.
- ETK 2002. Eläketurva ulkomailta -kansiot. Pohjois-maat. Helsinki: Eläketurvakeskus, 2002.
- ETK 2003. Eläke- ja työttömyysvakuutuksen oma-vastuumaksujen työllisyysvaikutuksista. Helsinki: Eläketurvakeskus, Muistio 28.8.2003.

- ETK and Kela 2003. Statistical yearbook of pensioners in Finland 2002. Helsinki: Finnish Centre for Pensions (ETK), The Social Insurance Institution (Kela), 2003.
- European Commission 2002. The Stockholm and Barcelona targets: Increasing employment of older workers and delaying the exit from the labour market. Working paper of the Commission Services. Employment and Social Affairs. Brussels, 2002-02-23 EMPL/A/1.
- European Commission 2003a. Employment in Europe 2003. Recent trends and prospects. Employment and Social Affairs. Luxembourg: Office for Official Publications of the European Communities, 2003.
- European Commission 2003b. European Employment Observatory Review: Spring 2003. Employment and Social Affairs. Luxembourg: European Commission, 2003.
- European Communities. Labour costs survey 2000. Member states. Statistics in focus. Population and social conditions. Theme 3 – 00/2003.
- Eurostat 1996. ESSPROS manual. Luxembourg: Office for Official Publications of the European Communities, 1996.
- Eurostat 2005. European social statistics. Labour market policy. Expenditure and participants. Data 2003. Luxembourg: Office for Official Publications of the European Communities, 2005.
- Forslund A, Fröberg D, Lindqvist L. The Swedish activity guarantee. IFAU – Institute for labour market policy evaluation, Report 2004:4. Available at: <www.ifau.se>.
- Freeman RB, Swedenborg B, Topel R. Ekonomiska problem i Sveriges välfärdsstat – inledning, sammanfattning och slutsatser. In: Freeman RB, Swedenborg B, Topel R, red. Välfärdsstat i omvandling. Amerikanskt perspektiv på den svenska modellen. NBER-rapporten. Stockholm: SNS Förlag, 1995: 7–43.
- Gould R, Nyman H, Takala M. Osittain työkyvytön vai osittain työkykyinen? Tutkimus osatyökyvyttömyyseläkeläisten työssäolosta. Helsinki: Eläketurvakeskuksen raportteja 33, 2003.
- Haataja A. Family leaves and employment in the EU. Transition of working mothers in and out of employment. In: Pfau-Effinger B, Geissler B, eds. Care and social integration in European societies. Bristol: Policy Press, 2005: 255–278.
- Haataja A. Pohjoismaiset vanhempainvapaat kahden lasta hoitavan vanhemman tukena. Janus 2004a; 12 (1): 25–48.
- Haataja A. Yhden tai kahden ansaitsijan malli: vaikutukset ansiotyön, hoivan ja tulojen jakoon. In: Räisänen H, Hjerppe R, toim. Hyvinvointi ja työmarkkinoiden eriytyminen. Helsinki: Valtion taloudellinen tutkimuskeskus, VATT-julkaisuja 40, 2004b: 162–186.
- Hemmingsson T. Samband mellan sjukskrivning och arbetslöshet. In: Hogstedt C, Bjurvald M, Marklund S, Palmer E, Theorell T, red. Den höga sjukfrånvaron – sanning och konsekvens. Stockholm: Statens folkhälsoinstitut, 2004: 155–174.
- Hytti H. Suomalainen työssäolo ja toimeentuloturva pohjoismaisessa vertailussa. In: Talouskasvu ja julkistalous ikääntyneen väestön oloissa. Tulevaisuusselonteon liiteraportti 4. Helsinki: Valtioneuvoston kanslian julkaisusarja 32, 2004a: 111–169.
- Hytti H. Early exit from the labour market through the unemployment pathway in Finland. European Societies 2004b; 6: 265–290.
- Hytti H. Why are Swedes sick but Finns unemployed? International Journal of Social Welfare 2006; 15: 131–141.
- Hytti H, Nio I. Monitoring the employment strategy and the duration of active working life. Helsinki: The Social Insurance Institution, Social security and health research: working papers 38, 2004.
- ILO 2003. Yearbook of labour statistics 2003. Geneva: International Labour Organization, 2003.
- Jansson F, Pylkkänen E, Valck L. En jämställad föräldraförsäkring? Bilaga 12 till Långtidsutredningen 2003. Stockholm: Statens offentliga utredningar SOU 2003:36.
- Kauhanen M. Määräaikaiset työsuhteet ja toimeentulon riskit. Helsinki: Kela, Sosiaali- ja terveysturvan tutkimuksia 69, 2002.

- Kosonen P. Pohjoismaiset mallit murroksessa. Tampere: Vastapaino, 1998.
- Kostiainen H. Valtion eläkkeiden rahastointi ja maksuteknikka. Esitelmä, Työeläkepäivä 15.10.2003 Helsinki.
- Lammi-Taskula J. Äidit työmarkkinoilla – kahden kerroksen väkeä? Yhteiskuntapolitiikka 2004; 69: 202–206.
- Lindell C. Omavastuu jakoon. Vuoden 2005 eläkeuudistuksessa työkyvyttömyyseläkkeen omavastuuta jaetaan usealle työnantajalle. Työeläke 2004; (2): 12–14.
- Madsen PK. The Danish model of flexicurity: a paradise – with some snakes. In: Sarfati H, Bonoli G, eds. Labour market and social protection reforms in international perspective. Parallel or converging tracks? Hampshire: Ashgate, 2002: 243–265.
- MISSOC. Social protection in the EU Member States and the European Economic Area. Situation on 1 January 2003. Employment and Social Affairs. Luxembourg: European Commission, 2003.
- NOSOSKO 1999. Förtida utträde från arbetslivet 1987–1996. En jämförelse mellan de nordiska länderna. København: NOSOSKO Nordisk Socialstatistisk Komité 10:99, 1999.
- NOSOSKO 2004. Social tryghed i de nordiske lande 2002. Omfang, udgifter og finansiering. København: NOSOSKO Nordisk Socialstatistisk Komité 23:04, 2004.
- NOSOSKO 2005. Social tryghed i de nordiske lande 2003. Omfang, udgifter og finansiering. København: NOSOSKO Nordisk Socialstatistisk Komité 25:05, 2005.
- OECD 2003. Ageing and employment policies. Sweden. Paris: OECD, 2003.
- OECD 2004. OECD measures of total hours worked. Available at: <www.oecd.org>.
- Olsson SE, Hansen H, Eriksson I. Social security in Sweden and other European countries. Three essays. Rapport till expertgruppen för studier i offentlig ekonomi, DS 51. Stockholm: Finansdepartementet, 1993.
- Palme J, Wennemo I. Swedish social security in the 1990s: Reform and retrenchment. København: Centre for Welfare State Research, CWR Working Paper 9, 1997.
- Palvelutyönantajat 2003. Keskustelussa sekoittuneet perhevapaisten kustannukset ja muut työnantajamaksut. Muistio 3.12.2003. Available at: <www.palvelutyönantajat.fi> [cited 13.7.2004].
- Palvelutyönantajat 2004. Työn ja perhe-elämän yhteensovittaminen. Muistio. Available at: <www.palvelutyönantajat.fi> [cited 13.7.2004].
- Parpo A. Kannustavuutta tulonsiirtojärjestelmään. Tulonsiirtojärjestelmän muutokset, kannustinloukut ja tulonjako. Helsinki: Stakesin tutkimuksia 140, 2004.
- RFV 2003a. Att förhindra och förkorta sjukfrånvaro – erfarenheter från fyra länder. Stockholm: Riksförsäkringsverket analyserar 2003:16.,
- RFV 2003b. Pågående sjukfall längre än fyra veckor efter fallängd, 1998–2003. Stockholm: Riksförsäkringsverket, Statistikinformation Is-I 2003:3.
- RTV 2003. Mellomlangsigtig budsjettering og rapportering. Basisrapport 2002. Oslo: Rikstrygdeverket 2003:1.
- Scherer P. Age of withdrawal from the labour force in OECD countries. Paris: OECD, Labour market and social policy – occasional papers 49, DEELSA/ELSA/WD(2001)2, 11 January 2002.
- Sociale ydelser. Hvem, hvad & hvornår. Håndbog i den sociale lovgivning med regler og ydelser pr. 1 januar 2004. København: Forsikringsoplysningen, 2004.
- Socialförsäkringen i Norden 2004. En översikt. Stockholm: Försäkringskassornas förbund, 2004.
- Sosialdepartementet 2003. Det norske trygde-systemet. Available at: <www.odin.dep.no>.
- SOU 2002. Handlingsplan för ökad hälsa i arbetslivet. Stockholm: Statens offentliga utredningar 5, 2002.

STM 2002. SOMERA-toimikunnan taustaraportti. Sosiaalimenojen kehitys pitkällä aikavälillä. Helsinki: Sosiaali- ja terveysministeriön julkaisuja 21, 2002.

Tiilikka T. 1990-luku toi omavastuumaksun. In: Forma P, Halmeenmäki T, Blomster P, Peltonen H, Tiilikka T. Artikkeleita kunnallisesta eläkejärjestelmästä. Helsinki: Kuntien eläkevakuutus, 2004: 81–85.

Työministeriö. Rakennetyöttömyyden purkaminen. Projektin loppuraportti. Helsinki: Työministeriö, Työhallinnon julkaisuja 321, 2003.

Vakuutusvalvonta ja Kela 2004. Työttömyyskassojen ja Kelan maksamat työttömyysturvaetuudet. Helsinki: Vakuutusvalvonta ja Kela, Tilastotiedote työttömyysturvasta 2004:7.

Viitamäki H. Kannattaako työ? In: Ilmakunnas S, toim. Työmarkkinat testissä. Helsinki: Valtion taloudellinen tutkimuskeskus, VATT-julkaisuja 30, 2001: 53–68.

VNK 2001. Työmarkkinoilta syrjäytyminen, tulonjako ja köyhyys. Työryhmäraportti. Helsinki: Valtioneuvoston kanslian julkaisuja 13, Talousneuvosto, 2001.

VNK 2003. Työllisyystyöryhmän loppuraportti. Helsinki: Valtioneuvoston kanslian julkaisuja 5, 2003.

Øverbye E. Stemming the tide of early retirement and disability benefits in Scandinavia. Paper presented at 16. Nordiske Socialforsikringsmøde, Copenhagen 9–11 June 2004.