Summary

Benefits from the social insurance are not the only compensation in periods of income loss. The total compensation can be described as a benefit triangle where the base of the triangle is the public social insurance. Collectively bargained supplementary compensations and personal insurances build on the base of the triangle. The purpose of this study is to examine if collectively bargained and personal supplementary compensations affect labor supply.

Collectively bargained insurances and benefits

Supplementary compensations add to all social insurances. In this report we focus on collectively bargained compensations and personal insurance that supplement sickness benefit, disability pension and unemployment insurance benefit.

Supplementary compensations cover all employees of a firm if the employer has signed a collectively bargained agreement. The employee does not need to be a member of a union to be covered. According to the National Mediation Office, 3.6 million employees are covered by collective agreements. This corresponds to 91 percent of all employees.

However, not all employees covered by collective agreements qualify for collectively bargained supplementary compensation if they fall ill, are disability pensioned or unemployed. To qualify for compensation many agreements require a period of employment. Some agreements also have an age limit, i.e. that the employee has to have reached a certain age or older to qualify for compensation. The percentage of people who qualify for collectively bargained supplementary compensations is much higher at sickness and disability than at unemployment. The percentages who qualify for supplementary compensation due to unemployment vary much

between industries and sectors since the requirements on tenure and age differ much between agreements.

The compensation decided upon in collective agreements are usually designed to (i) increase the replacement level below the ceiling in the social insurance, (ii) give income replacement above the ceiling, and (iii) in some cases also extend the benefit period. According to some agreements, the benefit is instead paid as a lump sum. Compensations are either constructed as agreement-based insurances or agreement-based benefits paid directly by the employer.

If the collectively bargained supplementary sickness and unemployment replacement rate exceeds a specified level, the social insurance compensation is reduced. There are no such restrictions, however, regarding collectively bargained supplementary disability pensions. The requirement to get collectively bargained supplementary compensation at sickness is in all sectors except the local government one (municipalities and county councils) that sickness benefit from the social insurance has been granted.

For most employees, the collectively bargained supplementary sickness and unemployment compensations are paid from insurance companies or the employer without a separate application, but there are some exceptions where the employee has to apply. This is not a problem if the employee has information that he or she is covered by the insurance. An earlier study (Sjögren Lindquist and Wadensjö, 2007) shows however that between 15 to 40 percent of those who met the requirements of the collectively bargained supplementary sickness insurances AGS(-KL) did not receive insurance benefits. The primary explanation for this is probably lack of information; they did not know that they had insurance coverage and, hence, did not apply for benefits from the insurance.

Personal insurances

Social insurance can also be supplemented by other private insurances, personal insurances, than those agreed upon in collective agreements. These personal insurances are either group insurances, through e.g. a union, or individual insurances. In many cases, supplementary group insurance is included in the union's membership fee. There are personal insurances that supplement the public unemployment insurance, sickness insurance, disability pension, work injury insurance and old age pension. This report covers private insurances that supplement the public unemployment insurance, sickness insurance and disability pension.

The personal supplementary insurances are designed as monthly benefits or as lump sum benefits paid according to long-term illness and/or when certain diagnoses are made. Most personal sickness insurances are taken out as group insurances for union members. Most unions offer supplementary sickness insurance to their members. There is no legal upper limit for the personal supplementary sickness compensation.

To be eligible for personal supplementary unemployment insurance benefits, the claimant has to be eligible for public unemployment insurance. For most personal supplementary sickness insurances, the claimant has to be granted sickness or disability compensation from the public social insurance to be granted benefits from the private insurance. An insured has to apply for personal supplementary sickness or unemployment compensation from the insurance company – it is not paid out automatically. It is likely, especially for group insurance included in the union membership fee, that many of those who have personal supplementary sickness, disability or unemployment insurance do not know that they are covered and therefore do not apply for compensation. Some of the unions have started to send a registration form for the personal insurance to unemployed members who apply for public unemployment insurance.

The private insurance market has grown rapidly during the last decade. In the year 2009, 70 percent of all union members (2.3 million employees) were covered by a personal supplementary unemployment group insurance included in the union membership. Statistics from the Swedish Insurance Federation show that almost 1.5 million are covered by a personal supplementary sickness insurance giving monthly benefits. As many as 2.1 million are covered by endowment (lump-sum) sickness insurance. These numbers can be compared with the 4.8 million who belong to the labor force.

Supplementary compensations and labor supply

How can supplementary compensations affect labor supply? According to economic search theory, the length of unemployment is affected by the replacement level in the unemployment insurance and the maximal length of the benefit period. The higher the replacement level, the higher the requirements on wages and the jobs the unemployed accept. Hence, the unemployment spell will be longer if the replacement level is high than if it is low. The probability to leave unemployment increases as the allowed benefit period comes to an end, as the individual's requirements on wages and job tasks decline. The shorter the maximal benefit period is, the shorter the average unemployment spell will be. As collectively bargained supplementary unemployment compensation and personal unemployment insurance increase the total unemployment compensation, and in some cases also increase the length of the benefit period, individuals can better afford being unemployed. Requirements on wages and job tasks can be higher when searching for a new job. Hence, collectively bargained supplementary unemployment compensations and personal unemployment insurances are expected to increase the average length of unemployment spells.

In the same spirit we can argue that labor supply is affected by supplementary sickness compensations. If it is high, the individual can better afford to be absent from work. The smaller the difference between wage and sickness benefits, the higher the probability that an individual will call in sick. If the maximum sickness benefit period is long, the individual can be on sick leave for a longer time since income is secured. As collectively bargained supplementary compensations and personal supplementary insurances increase the total sickness benefit, people can better afford to be on sick leave.

The discussion above builds on that people respond to economic incentives. Of course, there are other factors that influence the probability to become unemployed, the length of the unemployment spell and sickness absence. An individual cannot, for example, influence plant closure, downsizing, restructuring of the labor market and changes in demand for different skills. Sickness usually occurs randomly and often the individual cannot affect the speed of recovery or the supply and quality of medical care.

Another important factor affecting the take-up in the sickness and unemployment insurances is institutions. It is not the individual who decides the length of the sickness benefit spell or if a disability pension is granted; medical doctors and the Social Security Agency are gatekeepers. There is also an upper limit for how many days sickness benefit can be granted. The Unemployment Insurance Agencies decide upon granting unemployment insurance and there is an upper limit for the length of the unemployment insurance spell.

Another important factor in determining the take-up rate is knowledge about the complementary insurances. If the level of knowledge about insurance is low, the individual will make other decisions than if it is high. General knowledge about the supplementary insurances is not as good as the knowledge of the social insurances and in many cases the individual has to apply for insurance claims on his own. If the individual does not know he is covered by a supplementary insurance, an application for insurance benefit is not filed. In this case, labor supply is of course not affected by the presence of supplementary compensations.

What is the evidence from research? Most empirical research shows that both the replacement rate and the maximal length of the benefit period increase work absence. Research on disability pensions shows that the presence of disability pensions as well as the size of the benefit has a negative effect on labor supply.

There are only two empirical studies on Swedish collectively bargained supplementary compensations. One of them shows that one collectively bargained supplementary sickness insurance has a negative effect on labor supply (Hesselius and Persson, 2007). The other study shows that the probability to go back to work after a long spell of sickness is lower for those who have higher collectively bargained supplementary sickness compensation than for those who have a lower one (Arbetsgivarverket, 2007). That study also shows that among those who are sick for a long period and who have high collectively bargained supplementary disability pension are more likely to leave the labor force with a disability pension than those with a low collectively bargained supplementary disability pension.

For this report, we have conducted two empirical studies on collectively bargained supplementary compensations. First, we study if there is a pattern regarding the days on sickness absence after a work injury has occurred that indicates that the collectively bargained supplementary work injury insurance TFA/PSA affects labor supply. We expected that the fraction of work injured returning to work just before the 15th day on sick leave would be low and that the fraction returning from the 15th day on would be high since TFA/PSA is granted first after 15 days of sickness absence, and then also for the 15 preceding days. We found no support for our hypothesis. Instead, our analysis shows that more than 50 percent of all absence spells after a work injury has occurred is finished within a week. We see an increase in the return to work after one week precisely, but also after two and three weeks precisely. This is probably a result of the demand for a medical note after seven days of sickness absence to continue to be granted sickness benefits, and the medical doctor's choice of recommended period of sick leave (in weeks and not in days). Our results underline that institutions are important for the take-up rate. In this case, medical doctors are gatekeepers in the public sickness insurance.

Second, we study if a decrease in the replacement level in the collectively bargained supplementary disability pension for government employees that applied from 1 January 2008 led to that fewer government employees applied for a disability pension. We found no support for our hypothesis. One explanation may be that the five percentage points decrease was too small to affect application behavior. After the decrease, the replacement level for government employees was still higher than for employees in other sectors. Another explanation may be lack of information. If government employees did not know about the decrease in the replacement level, the timing of their disability pension application was not affected by the decrease. Since many lack information about the collectively bargained supplementary compensation they are covered by, this could explain our result. On the other hand, those who apply for disability pensions have almost always been on sick leave with sickness benefits for a long period before applying for disability insurance. The collectively bargained supplementary sickness benefit for government employees is paid out automatically to individuals on sick leave. Hence, this group should be well informed about the existence of collectively bargained supplementary compensations and hence search for information on supplementary disability pensions. Another possible explanation for our result is that the capacity for work of those who apply for a disability pension is so poor so they would apply for a disability pension regardless of the level of the replacement level.

Do collectively bargained supplementary compensations affect labor supply? Hesselius and Persson (2007) show that an increase in the replacement level from 80 to 90 percent in the collectively bargained supplementary sickness insurance AGS-KL covering employees in the local government sector with a long term sickness absence spell led to an average prolongation of absence spells by five days. Vilhelmsson (Arbetsgivarverket, 2007) shows that government employees have a higher probability to be granted disability pensions and lower probability to go back to work when absent due to sickness than employees in other sectors. He interprets this as a result of that government employees have higher collectively bargained replacement levels than employees in other sectors. Our studies on TFA/PSA and collectively bargained supplementary disability pension are two examples of that collectively bargained supplementary compensations or changes in them do not always affect labor supply.

These four studies differ in various respects. The supplements are not studied during the same time period, the quality of the information regarding the compensations and changes in them may have been different. In one study, an increase of the replacement level is studied and in another a decrease is studied. Our conclusion is that we cannot state that all or none of the collectively bargained supplementary compensations or changes in them affect labor supply. We instead conclude that it is important to analyze the different collectively bargained supplementary compensations separately, to analyze both increases and decreases in the replacement level and compare effects between different time periods. Further, the level of the compensation may be important. An increase from 60 to 70 percent can have a different effect on labor supply than an increase from 80 to 90 percent or from 90 to 100 percent – the relationship is not necessarily linear. It should be underlined that supplementary compensations are relatively unknown and that the effects on labor supply may increase if people are informed about them better through, for example, information campaigns.

Two other conclusions are that the compensation systems are very complex and hard to overview and that there is close interplay between the public social insurances, collectively bargained supplementary compensations and other private insurances. The replacement levels in the collectively bargained supplementary compensations usually follow the replacement levels of the social security insurances, either by renegotiations or by automatic adjustments. Compensation from supplementary insurances is usually paid out if the Social Insurance Administration Office or the Unemployment Insurance Offices have granted social insurance compensations or unemployment insurance benefits, respectively. Hence, politicians and other decision-makers should know how the different insurance systems supplement each other and how changes in the public social insurances affect other insurance compensations.