Financial Sustainability of Swedish Welfare Commitments

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Outline

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• Political Financial Stability Agreement from 1996
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• Public Provision of Welfare Services
  - Daycare, employment, health care, services for the elderly and handicapped
Swedish Background Information

• Demography and family policy - Promote fertility and women’s labor force participation
  - Benefits from the 1930s
  - Daycare from the 1960s
• Economic crisis 1990-95 → consensus on need for structural reform and rule-based sustainability conditions
  - Central Bank Monetary Policy, wage policy, state budget and public PAYGO pensions
Sweden’s Social Expenditures in an International Perspective
Net Social Expenditures

Figure 1. Total Net Social Expenditures. Public and Private Spending. Selected OECD Countries Percent of GDP, 2009.
Total Pre-tax Social Expenditures

Figure 2. Total Public Pre-tax Social Expenditures. Selected OECD Countries. Percent of GDP

Source: OECD
Sweden’s ”Keynesian” Financial Stability Agreement from 1996

• Savings goal of 1 % of GDP and ceiling on expenditures

• Ceiling on expenditures set the year prior to the budget year

• If in March it is likely that expenditures will exceed the ceiling, the government must propose expenditure reductions or a tax increase to parliament

• The expenditure ceiling applies in principle even to county council and municipal budgets
Ratio of Sweden’s Government Debt to GDP

Figure 3. Ratio of Sweden's Government Debt to GDP

Source: Eurostat
Government Debt 1997-2013

- Debt declined from 75 percent 1997 to 38 percent 2013
- Note that this rule withstood the pressures of the 2008-2009 recession
- In addition, individual income taxes on earnings were decreased in five separate steps (roughly 1.8 percent of GDP/year)
- The present political discussion is focused on increasing expenditures on public health services and care services for the elderly
Structural Improvements to Promote Labor Supply and Mobility

\[ t = \frac{(\text{Benefit per capita} \cdot \text{Recipients})}{(wL \cdot \frac{1}{1 - \theta})} \]

- Wage increases = \( F(\text{Productivity}) \rightarrow \) ca 1.5 percent
  - exogenous but possible to influence in the long run through education policy
- Focus on labor supply and productivity
  - younger persons
  - older workers (73 of persons 55-64 were employed 2013 and 15 percent of persons 65-74; age of exit of close to 64 for persons who hadn’t left the labor force prior to age 50
  - tightening of disability benefit grants → with employment service programs to help reintegrate into the LF
Individual Benefits
Public Pensions - Overview

- Reform 1994 with implementation through 2000
  - Contribution based NDC and FDC
  - General revenue financed guarantee at the bottom (plus a housing allowance conditional upon a means test)
- Ceiling on the public contribution-based schemes of earnings $\approx 70,000$ USD
- Supplementary occupational (DC) schemes
Swedish Pensions - An Overview

Public schemes

Ceiling for contributions to public NDC and FDC schemes

Occupational Supplementary Schemes
Figure 4. Old Age Public Pension Expenditures. Selected EU countries. Percent of GDP.

Pensions – Financial Stability

• The Swedish Public FDC scheme - in balance by definition

• The Swedish Public NDC scheme
  - Balance with a fixed contribution rate through:
    - Creation of individual annuities based on life expectancy at retirement
    - Covered wage growth indexation
    - Solvency rule (covers negative labor force growth if needed and technical imperfections)
Sickness Insurance – Financial Stability
– Short-term income loss from work and disability

• Short-term income loss from work
  - days 90-180: determine whether the worker can return to his present employer
  - days 180-365: determine whether the worker is employable in general
  - however, if the sickness/injury is most likely to lead to a sufficient recovery to return to work, but with a longer period of medical recovery then the benefit can be extended

• Disability is granted solely on strict medical grounds
Other cash benefits

- Family cash benefits – based on number of children and their ages - with a possible means-tested income supplement for families with children
- Benefits for functionally disabled up to age 65 – based on strict criteria
- Unemployment benefits – a low cap on the maximum amount
  - benefits up to 300 days or 450 days for persons with children under 18
  - must be registered with the employment services and actively seek employment
Public Provision of Welfare Services

• Day-care services
  - available to all children up to grade one with before and after school recreational services through grade six
  - highly subsidized with a user charge (free for the children of the unemployed seeking work)

• Employment services – network of local offices provided by the Labor Market Board
  - present focus helping people with functional disabilities
Health Care Services – Financial controls

• After pensions the second largest public expenditure ≈ 7.5 % of GDP

• Financial Controls:
  - Moral hazard: (relatively small patient fees) for a) medicine and b) visits to GP/clinics and hospitals
  - Screening: GP determines the need of a specialist/hospital; 24 hour telephone advice; emergency service queuing
  - Minimization of bed-nights at hospitals
  - Per capita (DRG) budgeting
  - Private provision of services to promote competition
Health Care Services – projected future costs

Figure 5. Health Care Expenditures. Selected EU countries. Percent of GDP.

Public Provision of Other Welfare Services

- Handicap services and services for the elderly
  - Provided by the municipalities
  - Severely handicapped children have the right to community living from ca age 25 and receive state disability benefits
  - Services for the elderly are provided directly in the user’s home as long as possible and thereafter the individual has the right to move into a community institutional facility, which require income-based fees
The End