



ESPN – Flash report

2015/64

Reform of the Danish unemployment insurance scheme

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Theme(s):	<i>Labour market</i>
Title:	Reform of the Danish unemployment insurance scheme
Category:	<i>Policy reform</i>
Abstract:	Based on a proposal by the Unemployment Insurance Commission, the Danish parliament adopted a reform of the unemployment insurance scheme on 22 October 2015. The reform will make the scheme more secure and flexible for the insured as well as easier to understand and to administer. It will reduce the number of people exhausting benefit periods.
Description:	<p>On 22 October 2015, the Danish parliament adopted a reform of the unemployment insurance (UI) scheme. This reform will be implemented as from 2017 after five years of debate.</p> <p>In 2010, the "Recovery Package" (<i>Genopretningsaftalen</i>) halved the maximum unemployment benefit period to two years and doubled the work requirement to re-gain entitlement to 52 weeks of work. As the economic crisis continued many people were at risk of exhausting their benefit. In response, three temporary schemes were put in place to help such people. As these schemes came to an end and the crisis continued, the number of persons exhausting benefits increased from 1,000-2,000 per year before 2010 to 34,000 in 2013 and 17,000 in 2014.</p> <p>The previous government set up an Unemployment Insurance Commission (<i>Dagpengekommisionen, DPK</i>) to modernise the UI system, provide better economic security and more flexibility. The DPK consisted of nine members and a secretariat: four representatives of the social partners and five independent experts. The reform proposal, according to government guidelines, should not adversely affect employment and public finances and should not increase unemployment.</p> <p>Three elements are innovative: the introduction of an employment account, a flexible benefit period and recurring waiting days. At the onset of unemployment the insured person gets an Employment Account (<i>beskæftigelseskonto</i>) with two years of UI benefits.</p> <p>The benefit period can be prolonged up to three years in total by taking on work. Hours of work enter the Employment Account. At the end of the ordinary two year benefit period, the insured can use the hours to extend the benefit period or save them for a later application for a new benefit period, or split the hours for both purposes. In all situations one unit of work gives rights to two units of benefit. For example, if the insured has working hours equal to seven months of work by the end of the ordinary two year benefit period, he/she can use six months to prolong the benefit period with an extra year and save the remaining month to a later claim for a new benefit period. Or the person can use one month to prolong the benefit period with two months and save six months to a later claim for a new benefit period. Today 1,924 hours of work are required to regain entitlement to a new benefit period; fewer hours cannot be used for either a new benefit period or a prolongation of the ordinary benefit period.</p>

	<p>Every four months the person gets a waiting day (i.e. a day without benefit) if she has not had work equal to 20 days (150 hours) or more over the past four months.</p> <p>The on-line Employment Account gives the unemployed personalised, up-to-date information on the number of days in work since becoming unemployed, days to the next waiting period, working days needed to cancel a waiting day and to become entitled to a new benefit period.</p> <p>Besides these innovative elements the reform also contains more known measures. Entitlement to benefit will be based on 12 months of work with earnings of at least €2,375 within 36 months: 12 times this amount (€28,500) gives entitlement to UI. Earnings above €2,375 per month do not enter the calculation as that would favour high income groups. Today entitlement requires 1,924 hours of work within 36 months, independent of the earnings.</p> <p>Benefit levels are calculated on the basis of the 12 months with the highest income in the last 24 months. As today the benefit is 90% of previous earnings with a benefit ceiling of €111 per day.</p> <p>Benefit levels are no longer adjusted during the unemployment spell. Today re-calculation each three months discourages take-up of low-paid work.</p> <p>Benefits are used on an hourly basis. Today benefits are used on a weekly basis which discourages take-up of short-term work.</p> <p>Employers pay the first two days of unemployment benefits.</p> <p>The number and complexity of rules have been greatly reduced. Digitization of the UI scheme based on monthly register data result in more administrative work being done automatically.</p> <p>The reform increases both security (through generally longer benefit periods) and flexibility (with stronger incentives for taking shorter and lower paid jobs). Simplified rules and use of registers and ICT make the system and its incentives easier to understand and administer.</p> <p>Estimates are that the reform will reduce the number of persons exhausting their unemployment benefits by between 15% and 40% at no extra cost and with no adverse impact on structural employment.</p> <p>These estimates have been calculated using a new dynamic micro-simulation model and a Markov equilibrium model, both developed by the Ministry of Finance in collaboration with UI Commission members and in a dialogue with social partner economists. The estimates are based on empirical evidence acquired since 2010.</p>
<p>Outlook & Commentary:</p>	<p>The DPK reform proposal was launched on 19 October 2015. Three days later, it was adopted by parliament (by the Liberal Party in the minority government, the Social Democrats and the Danish People's Party). The final text differs from the DPK proposal on two points. First, UI benefits to people finishing their education was cut to 71.5% of the maximum UI benefit instead of 82% today or the 78% proposed by the DPK. Second, the number of recurring waiting days became one each four months instead of two each three months. As a result, the political agreement allocates an extra €40 million to UI, reduces employment by 840 persons and makes a smaller reduction (by 100 people) in the number of persons with expiring benefits.</p>

	<p>The reform has been praised by most political parties, social partners and the Economic Council. The Liberal Alliance would have preferred more benefit cuts and the Red-Green Alliance and Socialist People's Party fewer cuts. The Economic Council would have liked higher compensation for the first three months for persons with a strong connection to the labour market.</p> <p>The situation of self-employed, persons with fee contracts and freelancers will be addressed in the Spring of 2016.</p>
Further reading:	<p>The DPK prepared one main report with the recommendations, a technical report on the two models (micro and macro), ten thematic working papers, two literature reviews on economic incentives and unemployment insurance, and two notes on unemployment insurance and behavioural economics. These documents, together with the political agreement, are available in Danish from www.bm.dk.</p>
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