



# Denmark: A new unemployment insurance scheme for the future labour market

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## Description

*On 18 May 2017, Denmark adopted a new unemployment insurance scheme for the self-employed and persons in non-standard jobs. In this new scheme, unemployment is defined in relation to activities rather than to a categorisation as either self-employed or wage earner. Income as both wage earner and self-employed as well as income from multiple income sources will establish eligibility and entitlements. The reform will enter into force on 1 July 2018.*

Denmark has adopted a new unemployment insurance scheme for the self-employed and persons in non-standard jobs. The scheme aims to (better) cover the growing number of new and combined forms of employment.

The reform will give better unemployment insurance coverage to the self-employed, persons in non-standard jobs, persons with multiple jobs and persons combining employment and self-employment. It will create a more transparent and less discretionary system, using earnings registered for tax purposes.

The reform redefines unemployment and secondary employment, changes the eligibility criteria and benefit formulae, and introduces new possibilities for ceasing self-employment and winding up own companies. The new scheme is more in line with the way the tax system works and its rules will be similar to those of the “ordinary” unemployment insurance (i.e. those that apply to employees).

In this new scheme, unemployment is defined in relation to activities rather than to a categorisation as either wage earner or self-employed. Wage earner activities include income from work as defined by tax regulations. Self-employed activities require the person to be involved in activity with a company that is registered and generating income that is taxed.

Eligibility rules under this scheme specifically focused on self-employed and workers in non-standard jobs are based on total (work-related) income, which includes: earnings from salaried employment and self-employment, surplus in own company and secondary activities. This total income must be at least €29,363 within a 3 year period (2016 figure). Eligible amounts are calculated monthly with a maximum of €2,447 (2016).

Re-eligibility rules, i.e. the rules governing whether an unemployed person is eligible for an extended or new unemployment insurance period, are also amended. Re-eligibility is based on the number of hours worked, where income from self-employment is converted into hours (€15 per hour in 2016). As in the “ordinary” unemployment insurance scheme (for wage earners), the unemployed can extend the benefit period by working; one hour of work results in a two hour benefit extension.

The new unemployment benefit is calculated in the same way as for wage earners. The benefit calculation uses the same income base as for establishing eligibility.

By introducing different ways of electronically ceasing self-employment activities and by using existing ways of winding up companies, the reform gives the self-employed and persons in non-standard jobs registered as self-employed a quicker, less bureaucratic

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and less discretionary path to receiving benefits. The reform introduces a job search period of 6 months whereby the person cannot start a new company or enter an existing company whilst receiving unemployment insurance. Existing waiting periods of 3 weeks in case of closure and 1 week in case of bankruptcy are maintained.

This new scheme represents a major change compared with the current (pre-reform) system, where freelancers and a number of other groups of people in non-standard jobs (e.g. IT professionals, musicians, actors...) are registered as self-employed – which, de facto, makes it difficult for them to get unemployment insurance in-between jobs. Also persons who are both self-employed and wage earners can only use income from one of the two sources for unemployment insurance purposes. Discretion and lack of transparency and predictability are other problems of the current unemployment insurance scheme. In particular, it is difficult to establish when a company ends and the person thereby becomes entitled to benefits. It is also difficult to establish the income base for calculating the unemployment benefit.

The new scheme for the self-employed and persons in non-standard jobs reflects to a large extent the new unemployment insurance system that was adopted in October 2015 (see ESPN Flash Report 2015/64). Its estimated cost is €2.7 million more than the existing scheme.

The new scheme is based on a proposal prepared by a working group of civil servants from the Ministries of Finance, Taxation and Employment, in consultation with a group of representatives from the social partners (Danish Confederation of Trade Unions (LO), Confederation of Professionals in Denmark (FTF),

the Danish Confederation of Professional Associations (Akademikerne), Confederation of Danish Employers (DA), Local Government Denmark (KL) and Danish Regions (Danske Regioner)). The working group was established in February 2016 as proposed by the Danish Unemployment Insurance Commission in October 2015. The working group recommendations were endorsed by the consultation group of social partners on 25 April 2017.

On 18 May 2017 the Government (composed of the Liberal Party, the Liberal Alliance and the Conservatives), the Social Democrats and the Danish People's Party adopted the new scheme based on the working group's proposals. The reform will enter into force on 1 July 2018.

## Outlook & commentary

The new scheme has been welcomed by many actors, including the social partners and the two biggest unemployment insurance companies for the self-employed (ASE and DANA).

It is likely to respond effectively to many of the challenges of a future labour market with many persons in non-standard jobs, or combining activities as self-employed and employee.

The political parties behind the reform are the same as those behind the reform of the ordinary unemployment insurance scheme adopted in October 2015. These political parties will meet twice a year to discuss the implementation and economic costs of the scheme starting in 2020. Additionally, the scheme will be evaluated in 2021.

## Further reading

Regeringen *Aftale om et nyt dagpengesystem for fremtidens arbejdsmarked* (Agreement on a new unemployment insurance system for the labour market of the future), Copenhagen 18 May 2017. Available at:

<http://bm.dk/da/Aktuelt/Pressemeddelelser/Arkiv/2017/05/Dagpengeaftale.aspx>

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