

Annex A

Wage subsidy net cost calculations

This annex gives an overview of the net cost calculations underlying the numbers quoted in Chapter 4.

Average duration

Referral to the programme is initially made for a period of six months and is renewable for a further six months if deemed appropriate by the PES caseworker. The calculations presented in what follows are based upon assumed programme duration of 200 days. This is the average duration presented in National Audit Office (2013). Additional estimates are presented for the maximum duration – a full year.

Earned income during programme participation

The family is assumed to have no income source other than from employment and cash benefits. The subsidy is provided at 80% of total wage costs and capped at a maximum of SEK 800 per day. Given the average duration of 200 days, this gives a total subsidy of 17 600 for those earning at the subsidy cap – given that the average wage for a Step-in-Jobs worker is above the subsidy cap this is also the total subsidy for the average worker. Combined with the employer contribution to wage costs this gives total wage costs which when discounted to account for charges associated with old-age pensions, survivor's pensions, sickness insurance, parental insurance as well as work injury charges, labour market charges and general payroll tax, comes to a gross wage of SEK 19 180 for those on the average subsidy and SEK 16 740 for a worker earning at the wage cap (see Table A.1).¹ These wages account for 56% and 49% of average wages in Sweden respectively (as calculated according to OECD, 2015, see below).

Table A.1. Breakdown of wage costs under the Step-in Jobs Programme, by level of subsidy

| | | Average subsidised Step-in Job | Step-in Job subsidised at wage cap |
|------------|---|--------------------------------|------------------------------------|
| | Subsidy rate | 80% | 80% |
| | Duration | 200 days | 200 days |
| | Daily subsidy | 800 SEK | 800 SEK |
| Wage costs | Employer contribution | 7606 | 4400 |
| | Public contribution | 17600 | 17600 |
| | Total | 25206 | 22000 |
| | of which (holiday pay, sick pay, payroll taxes) | 31.40% | 31.40% |
| | Total gross wage | 19180 | 16740 |
| | % of average wage | 56% | 49% |

Calculation of average wages

Calculations are based upon data from the September survey of Swedish employers' survey and are reported in OECD (2015). The calculations are based on the earnings of a full-time adult worker (including both manual and non-manual). They relate to the average earnings of all workers in sectors B-N of the International Standard Industrial Classification of All Economic Activities (ISIC Revision 4, United Nations). No account is taken of variation between males and females or due to age or region. The earnings calculation includes all cash remuneration paid to workers in the industries covered taking into account average amounts of overtime, cash supplements (e.g. Christmas bonuses, 13th month) and vacation payments typically paid to workers in the covered industry sectors. For more details see <http://www.oecd.org/ctp/tax-policy/taxing-wages-methodology-and-limitations-2015.pdf>.

Participants by family types

In addition to the dependence of in-work benefits on assumptions about the level of earnings received during programme participation, the extent of in-work and out-of-work benefits an individual is eligible to is dependent on their family situation. As a result, the government savings that result from the programme are dependent on the family situation (for example single, couple, number of children, etc.) of the participant. The analysis presented provides estimates calculated on the basis of two assumptions about the household of the claimant. In the first place estimates are provided for *single* individuals and in the second place they are provided for a *couple with two children* in which only one of the adults is moved into salaried employment.

Calculation of net costs

The net costs are calculated on the basis of the OECD work on benefits and wages and represent the sum of the monetary benefits of the programme – including the income tax the individual would earn in work and the annual welfare that is saved as a result of moving an individual into work. The level of income tax is calculated according to the wage level to which the subsidised job would take them, as outlined above, this is to 56% of average wages in the case of a worker earning the average Step-in-Jobs wage, and 49% of average wages for a worker earning at the subsidy cap. Annual welfare saved includes the social assistance, housing benefit and family benefit that, dependent on their family situation as outlined above, the individual would have received if out of work.

In addition to the costs of the subsidy, the costs include the in-work benefits that accrue to low-income workers as well as any other benefits – such as housing benefit and family benefit – that accrue to low income workers. These additional costs are, again, dependent on the income bracket into which the subsidy places the worker (see Table A.2).

Table A.2. Breakdown of benefits and costs (in SEK) that accrue under the programme per year, by family situation

| | Wage at the average subsidy rate (56% of average wages) | | Wage at the average subsidy rate (49% of average wages) | |
|---|---|-------------------------------------|---|-------------------------------------|
| | Single | Single earner couple + two children | Single | Single earner couple + two children |
| Benefits | | | | |
| Annual welfare (SA+HB+FB) saved | 128 155 | 204 835 | 128 155 | 204 835 |
| Income tax at X% of AW | 49 186 | 49 186 | 41 113 | 41 113 |
| Costs | | | | |
| Programme costs | 17 600 | 17 600 | 17 600 | 17 600 |
| In work benefits at X% of average wage | 17 839 | 17 839 | 15 907 | 15 907 |
| Other benefits (FB+HB) when earning x% of average | 0 | 43 800 | 0 | 48 600 |

Lastly, these costs and benefits are aggregated, at each wage and for each family type over the average duration of the programme, or over the maximum (one year) of the programme. The resultant net costs range from SEK 14 256 in the case of a couple with two children in which one adult is moved into work at the average level of the “Step-in Jobs” subsidy for an average programme duration, to SEK 57 829 in the case where a single migrant is moved into employment earning at the subsidy cap for the maximum duration of the programme (see Table A.3)

Table A.3. Calculation of approximate net costs (in SEK) over the duration of the programme

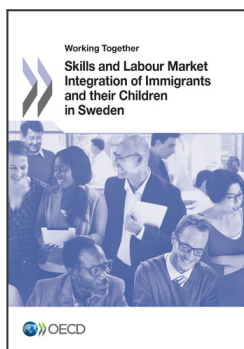
| | Wage at the average subsidy rate (56% of average wages) | | Wage at the average subsidy rate (49% of average wages) | |
|-------------------------------------|---|-------------------------------------|---|-------------------------------------|
| | Single | Single earner couple + two children | Single | Single earner couple + two children |
| Over duration | | | | |
| Programme cost for average duration | 160 000 | 160 000 | 160 000 | 160 000 |
| Social welfare saving over duration | 134 349 | 192 440 | 128 233 | 182 859 |
| In work welfare | 13 514 | 46 696 | 12 051 | 48 869 |
| Net cost | 39 165 | 14 256 | 43 818 | 26 010 |
| Over one year | | | | |
| Programme cost over one year | 211 200 | 211 200 | 211 200 | 211 200 |
| Social welfare saving over duration | 177 341 | 254 021 | 169 268 | 241 374 |
| In work welfare | 17 839 | 61 639 | 1 590 | 64 507 |
| Net cost | 51 698 | 18 818 | 57 839 | 34 333 |

Note

1. For 2014 these charges amount in total to 31.42% of the total salary.

Reference

OECD (2015), *Taxing Wages 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/tax_wages-2015-en.



From:
**Working Together: Skills and Labour Market
Integration of Immigrants and their Children in
Sweden**

Access the complete publication at:
<https://doi.org/10.1787/9789264257382-en>

Please cite this chapter as:

OECD (2016), "Wage subsidy net cost calculations", in *Working Together: Skills and Labour Market Integration of Immigrants and their Children in Sweden*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264257382-10-en>

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