

Who Receives Student Finance for Transition and Retraining? An Empirical Study of the First Two Application Periods

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The labor market is in constant flux. Structural change requires individuals to transition from shrinking industries and occupations to new jobs where productivity is higher. To support and facilitate this adjustment, labor market policies include several measures such as generous notice periods and a well-developed unemployment insurance system.

In October 2022, the “Student Finance for Transition and Retraining” was introduced in Sweden to help individuals strengthen their position in the labor market through education and skill development. This initiative is part of a broader package of measures, in line with the LAS agreement between the government and the social partners, which also includes the possibility to deviate from the seniority rules during layoffs.

The program targets individuals aged 27 to 62 who have a strong connection to the labor market, having worked at least 8 of the past 14 years and 12 of the last 24 months. The support consists of two parts. A publicly financed part that replaces 80 percent of previous earnings, up to a maximum amount of 21,300 kronor per month; this can be compared to the grant in the regular student aid system, which amounts to just under 4,000 kronor per month. Additionally, those covered by the main agreements between the Confederation of Swedish Enterprise and the labor unions LO/PTK receive extra support. This extra support amounts to 80 percent of previous earnings up to 32,542 kronor per month, and 65 percent of previous earnings up to 66,500 kronor.

In this report, we analyze the following questions:

1. Are individuals with a weaker position in the labor market more likely to apply for Student Finance for Transition and Retraining?
2. How does the likelihood of being granted support relate to an individual’s current position in the labor market?
3. How does the design of the support affect the likelihood of applying and receiving support for different groups?

Our study examines the first two application periods – the fall of 2022 and the spring of 2023.

Key Findings

- › Applicants are predominantly highly educated (figure 1) and employed in professions with a low risk of being replaced by artificial intelligence (figure 2). Individuals with a higher risk of unemployment are slightly more likely to apply (figure 3).
- › Those who are granted support generally have higher education levels (figure 1) and lower individual unemployment risks compared to those who are denied (figure 3).
- › Individuals most affected by structural change, who arguably need skill development the most, are less likely to apply for support.
- › Income evolves similarly post-application, both for individuals who are granted and denied support, indicating that the support mainly subsidizes education that would have occurred regardless.

Figure 1. Likelihood of applying for and being granted support by years of education.

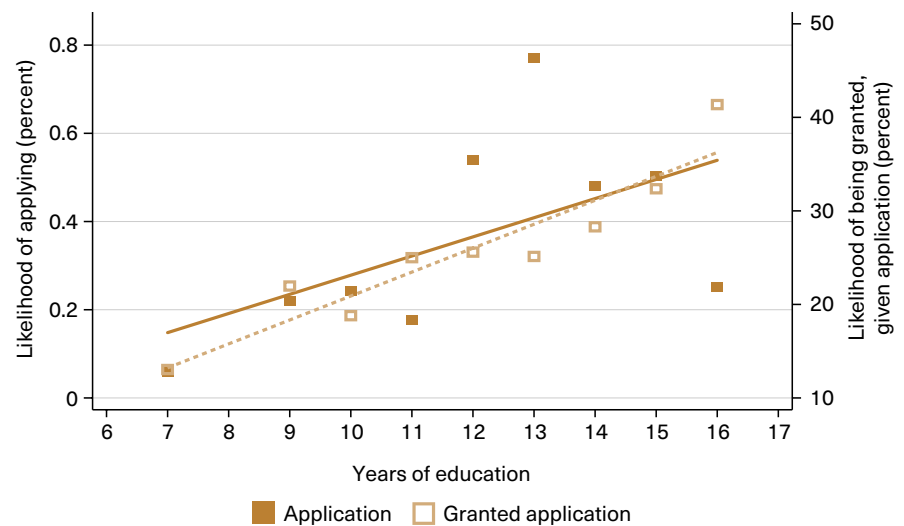


Figure 2. Likelihood of applying for support and risk of current job disappearing due to technological development (automation and AI).

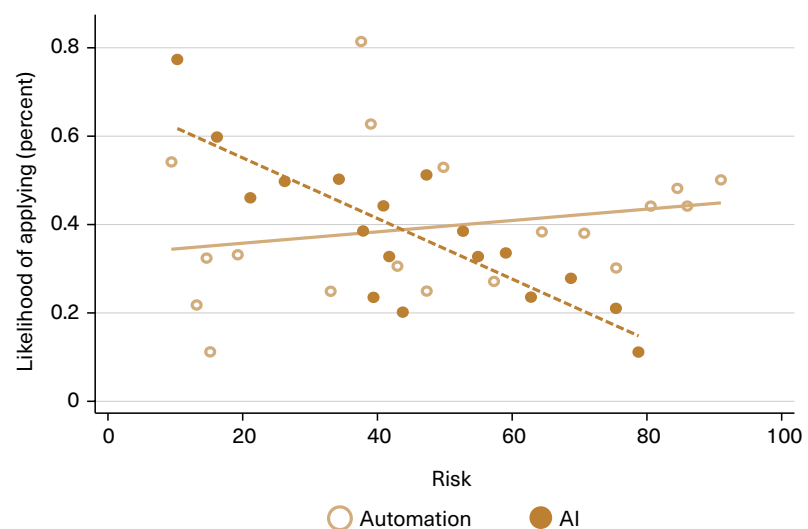
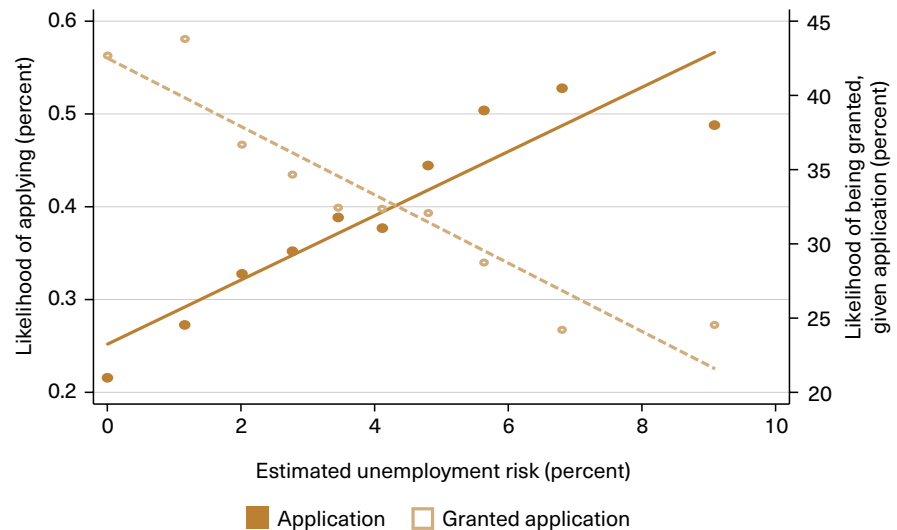


Figure 3. Likelihood of applying for and being granted support conditional on unemployment risk.



Limitations

A possible limitation of our study is that we only have been able to analyze the first two application periods. It is, of course, possible that the patterns we have documented will change as the support has been in place for a longer period. Nevertheless, our assessment is that the same groups will continue to be overrepresented among those who received support with the current design of the support. This assessment is also supported by the fact that the application periods for 2022 and 2023 show similar patterns. Our analysis is limited by the fact that data on labor income only extends to 2023. This means that we can follow individuals for at most one year after applying for support. An interesting question is how the transition study support affects individuals' labor income in the longer term.

Conclusion and Policy Discussion

- › The program does not reach the groups most affected by structural change, such as individuals with low education and those with high unemployment risk. This is partly due to lower application rates among less-educated individuals and among those in jobs at high risk of AI replacement.
- › The Swedish Board of Student Finance (CSN) uses a “first come, first served” principle when granting applications. This principle makes it difficult to target support to applicants with the greatest need, as highly educated individuals are much more likely to apply early in the application period.
- › The likelihood of receiving support decreases with higher unemployment risk, indicating that those who need retraining the most are less likely to be granted support.
- › Income evolves similarly, both for those granted and denied support. This suggests that the program does not significantly increase the likelihood of starting education. The program appears to subsidize education that would have occurred anyway.

- › The design of the support has a significant impact on application rates. The likelihood of applying increases linearly with the amount of state support up to the maximum, after which it decreases linearly.

An important policy question is whether the generous subsidy rate of the program is well-balanced from a socio-economic perspective. To approach this question, we compare the subsidy with the regular student aid system and support for unemployed individuals in Sweden. Within the regular student aid system, individuals can apply for grants and loans for higher education. The grant ceiling for the transition study support is about five times higher than the grant portion in regular studies. This is despite the fact that the regular system is targeted towards younger individuals with a longer remaining working life, which increases the socio-economic return, all else being equal. Unemployed individuals in labor market programs, who meet the requirements for transition study support, typically receive unemployment-based compensation of roughly the same magnitude as the transition study support. However, unemployed individuals typically have a greater need for retraining than the employed. Given these comparisons, the level of transition study support appears to be too high from a socio-economic perspective. Our assessment is that the current student aid system could meet the need for retraining. A more generous and extended loan component at older ages would create reasonable incentives for further education without the costs associated with the transition study support. One could also consider making the subsidy rate dependent on the need for retraining, where individuals with greater needs for retraining would be subsidized to a higher extent.

A related policy question concerns the focus of the support. A generous subsidy can be justified from a socio-economic perspective if it is targeted at groups with a significant need to upgrade their qualifications and who would not do so without the support. A straightforward way to achieve this would be to limit the support to those who have been given notice of termination of their jobs. Such a focus also seems logical as this group is primarily affected by the LAS agreement, which has given employers greater flexibility to deviate from seniority rules.

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