

The State as an Employer

The Icelandic Model



Ministry of Finance

Ministry of Finance, Manuscript
May 2008

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Manuscript
2008 Ministry of Finance

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Preface

In the last decades, public administrations around the world have been going through various managerial reforms. This has not least been the case in the field of human resource management, where in the past national traditions and histories have been the most influential factors. In the international arena, there is increasing interest in comparing and sharing experience regarding best practices in personnel matters and public administration.

The Department of Personnel Policy in the Ministry of Finance disseminates information on personnel-related issues in the Icelandic state sector in connection with meetings, conferences and seminars in various international arenas. It also provides written responses to questionnaire surveys and other inquiries from foreign cooperation partners and international organisations.

This publication describes how the Icelandic government employer system is structured and sets out the general employment conditions, as well as more specific rules of employment law, the individual agencies go by in creating their employment policies. All figures mentioned are for year 2006, unless otherwise stated.

1 The Icelandic labour market in general

1.1 Labour participation

The Icelandic labour market has one of the highest participation rates (85%) among OECD countries. This is explained partly by the fact that the rate of unemployment has normally been one of the lowest among OECD countries (2.6%). The participation rate of women has also been very high by international comparison, with women accounting for 47% of the labour force. Participation rates of the elderly have also been quite high and the pension system does not give special incentives for early retirement. The official retirement age is 67 and 33% of 65- to 74-year-olds worked at least one hour a week. Furthermore, Icelanders tend to work long hours, the average being 42.2 work hours per week. The Icelandic labour market has the highest level of union density among the member countries of the OECD, 84 per cent, and the employers are also highly organised, with one federation representing approximately 2800 companies employing about 60% of all employees in the Icelandic labour market.

The state sector is an integral part of the Icelandic labour market. Around 12% of the total workforce is employed in the state sector. The employment conditions of the Icelandic state sector are for the most part similar to those of employees in other sectors of the labour market. The differences, which generally are based on laws, are primarily due to one the one hand the exercise of public authority and on the other hand to protect the provision of services deemed vital for the society as a whole.

1.2 The Icelandic collective bargaining model

Collective agreements between the labour market parties are a significant element of the Icelandic labour market. The point of departure is that as long as the labour market parties themselves are able to reach agreement, the Government will intervene as little as possible in the employees' conditions. The wage bargaining process in Iceland is highly centralised and usually leads to more or less nationwide settlements. In the last decades tripartite negotiations where the employers' and employees' organisations in the private labour market and the government/cabinet cooperate in order to reach an agreement which fits the economic situation of the day have been quite common.

The collective bargaining rights are stipulated in law, both who can represent on the one hand employers and on the other hand employees, as well as the procedures on negotiations, disputes and industrial action. There are different laws applying to the private sector and the public sector.

The Industrial Relations Act (IRA) dates from 1938 and mainly concerns the private sector. The Act ensures wage-earners the right to form unions open to everyone belonging to the trade in question within a particular district (the minimum being one municipality). The Act stipulates that unions be organized by trade rather than by firms or industries. In consequence, within large firms, the workforce may belong to 20 or more unions. In the Act the rights by the labour unions on the labour market to enter into wage agreements is ensured, rules regarding strikes are set out, as well as the Act stipulates the establishment of the Labour Court, which is a special court addressing labour affairs. The Labour Court settles disagreements between unions and employer organisations in connection with the interpretation of the collective agreements as well as questions regarding breaches of the agreements, including strikes in contravention of the collective agreement. It does not address the rights or duties of the individual employees' contract or personal grievance claims. That is matter for the common law courts. In other words

there is a clear distinction between how on the one hand disputes of (collective) interests, and disputes of (individual) rights on the other hand, are processed in the judiciary system.

In principle all collective agreements made under the Act have a “closed shop” clause where priority in recruitment is granted to trade union members in pay contracts, the legitimacy of which has been ratified by the Labour Court on several occasions.

The individual unions have the bargaining rights. The traditional bargaining round however usually begins by ASÍ (The Icelandic Federation of Labour, by far the largest organization of trade unions in Iceland), although it has no bargaining power in its own right, puts recommendations on what issues should be put on the table for discussion, to individual unions for approval or rejection. Negotiating policy is usually determined by a committee of chairmen of the federations within ASI. If that body opts for a centralized bargaining round, which is the main rule, a negotiating committee is appointed which must seek a mandate from each individual union. Likewise, it must seek authority for calling for strikes. Once a wage agreement has been negotiated, it must be put to the vote at a general meeting in each individual union.

In connection with bargaining regarding the renewal of collective agreements, the trade unions may, with a seven day warning, issue a strike notice and the employers unions may issue a lockout warning, in order to put pressure to bear on the negotiations. Before such a notice can be issued, the parties are required to endeavour to reach an agreement, if necessary with the assistance of the Office of the State Conciliator on Labour Disputes. If that fails the employer or trade union in question has to arrange a secret ballot where more than one fifth of its members takes part and more than half of those taking part have to agree to go on a strike beginning on a certain day.

The Collective Agreements for Public Sector Employees Act (CAPSEA) from 1986, differs from the IRA mainly with regard to the definition of employee unions and restrictions on the right to take industrial action.

The Act defines three types of trade unions; 1) union, which members either have registered qualifications for a certain profession (Example: police, custom officials), or a formal education that is equivalent to such a registration (Example: academic professions such as lawyers, economists etc.); 2) union which members are at least two thirds of the personnel of the same agency and the total number working there exceeds 100 (there are no such at the moment); and 3) union which members are the majority of the personnel working in the state sector others than those who are members of the aforementioned unions (Example: office and service staff). According to the Act only one union can have the right to negotiate on behalf of each profession.

With regard to the right to take industrial action the trade union may issue a strike notice with a fourteen day warning, but the employer, which in case of the state is the Minister of Finance, hasn't got the right to use lockout as a method to bring pressure upon the negotiations. Instead he has the right to compile a list of jobs/positions he deems to be vital to keep public services running and these jobs/positions are not subject to the strike notice of the union concerned. He has to present this list to the trade unions and they can recommend alterations but the final decision is with the employer. After deciding if and which recommendations from the unions will be taken into account, the employer has to publish his final list in the Official Gazette before February each year. If he fails to do so the last published list continues in force. If the unions are not satisfied with the list (and how their recommendations were treated) they can take the dispute before the Labour Court (which they have done on numerous occasions). Before the trade union can issue a strike notice, the trade union in question has to arrange a secret ballot where more than half of its members take part and more than half of those taking part have to agree to go on a strike beginning on a certain day.

In recent years, the directives by the EC, that have become a part of the EEA-Agreement, have generated much development in Icelandic labour affairs and the directives have either been included in laws or in collective agreements. In the public sector, there is a consensus that the implementation of EC directives on labour market and social-related issues is to take place, whenever possible, within the framework of the Icelandic model i.e. through collective agreements.

It is, therefore, a characteristic of the Icelandic labour market – both the public and private sectors – that it is based on the conclusion of collective agreements subject to negotiation between employers and employees through their trade unions.

With the signing of the collective agreement the negotiating partners undertake to refrain from industrial action during the term of the agreement, which means that they cannot lawfully call a strike. The parties decide the length of the agreement period on each occasion. The agreements establish the general parameters for wages and other employment conditions. They stipulate wages and wage increases during the term of the agreement. The agreements also discuss working hours and breaks during the working hours, as well as defining what constitutes overtime and payments for overtime, holidays and paid vacation. Agreements also discuss health and safety conditions in the work place and insurance, such as accident insurance and sickness insurance. Some specify termination of work, conditions and advance notice. Training programs and continuing education and financing of attaining advanced degrees is defined in some agreements. Trigger clauses for the agreement are often included, for instance if inflation exceeds a certain limit, the agreement might be terminated or parts of the agreement eligible for review, especially the chapter on wages and wage increases. (In appendix 1 there is a more detailed description of a typical collective agreement.)

Terms of pay and employment that are agreed through collective bargaining apply also to non-unionised employees within the same sector.

1.3 Legislation

The relationship between the employer and the individual employee is as a main rule regulated by collective agreement. Therefore there is no complete legislation regarding labour and social affairs in Iceland. There are, however, a number of labour market laws which regulate the terms that apply to special groups of employees or apply to special situations. An example of the former is the Collective Agreements for Public Sector Employees Act, the Government Employees Act and the Civil Servants' Pension Act. Examples of the latter are; the Act of Obligatory 40 Hours Working Week, the Holiday Act, the Wage Earners' Terms of Service and Obligatory Pension Rights Act, the Equal Treatment Act, the Equal Pay Act, the Working Environment Act and the legislation regarding maternity leave. These laws cover employers and employees in both the public and private sectors. A typical feature of the current labour law is that it lays down certain minimum rights, while making it possible for the labour unions and employers to agree on better solutions through collective bargaining, which has been the case for the majority of these entitlements.

2 The state sector

2.1 The state sector as part of the public sector labour market

The public sector comprises:

- The state sector, which is in charge of tasks at central level (including central administration, the police, hospitals, institutional care for the disabled and elderly, the upper secondary schools and universities),
- The municipalities, which are in charge of tasks at local level (including primary schools, child care and care for the elderly)

The Department of Personnel Policy in the Ministry of Finance is responsible for safeguarding the employer's interests on behalf of the state. In the remainder of the public area, the employer's interests are safeguarded by the Association of Municipalities in Iceland.

The public sector comprises around 40,000 employees, corresponding to about a fourth of the Icelandic labour force (165.000). The state sector accounts for approximately 17,000 employees, which is approximately 12% of the total workforce. The major personnel groups are academics and office/service staff, teachers, internally trained staff such as police and customs officers and skilled and unskilled labour as well.

The average age of the staff in the state sector is just above 45 years. Two-thirds of state sector employees are women. Fifty-seven per cent of staff has completed at least three years of academic education and one-third of the remaining employees have completed some form of higher education.

2.2 State personnel divided by type of agency

There are approximately 204 ministries and agencies, ranging from the smallest having two employees to the largest having more than 4700. More than half of the agencies have less than fifty employees.

Type of agency	Number of agencies	Number of personnel	Number of full time equivalent
Ministry level operations	16	735	707,0
Judicial operations and police	30	1.642	1.571,3
Tax and customs operations	13	512	488,2
National financial operations and other services	11	603	474,1
Primary health care and hospitals	23	8.210	6.413,5
Social and employment services, institutional care for the disabled	22	2.005	1.465,5
Universities and upper secondary schools	33	4.480	3.538,2
Other education, research and culture operations	20	936	805,9
Transport, regional and environmental services	36	2.444	2.149,6
Total	204	21.567	17.613,3

2.3 The Ministry of Finance (Department of Personnel Policy) as employer

The role of the Ministry of Finance as an employer has changed significantly over the last two decades or so. In the late nineties the Ministry of Finance was the employing authority of all staff in the state sector and formally held all HRM authorities. During the latter part of the twentieth century responsibility and authority has increasingly been delegated to individual agencies with the aim of improving efficiency in both operational and financial decision making. This culminated in 1996 with a new Government Employees Act, where the responsibility for HRM along with the day-to-day responsibilities of people management was devolved to the Director Generals' of agencies. Under the new law a Director General can, as he sees fit within the agency's mandate, appoint, promote and dismiss personnel in accord with the need of the agency, taking into account the budget and general guidelines (collective agreements being one example) provided by the Ministry of Finance.

The Department of Personnel Policy was set up as part of the Ministry of Finance in 1998 in order to carry out the function of the "whole of government" employer. This entails developing and promoting personnel policies for the state sector as a whole, the prescription and interpretation of rules in the area of personnel, and the tasks of concluding collective agreements and other agreements regarding pay and employment conditions. It provides ministries and government agencies with general as well as specific advice on personnel-related matters. Furthermore, the Department cooperates on an ongoing basis with the employee trade unions, i.e. in connection with collective bargaining, when drawing up joint guidelines etc.

2.4 The role of trade unions as representatives of employees

In accordance with the Icelandic collective bargaining model, collective agreements fixing pay and employment terms for the various personnel groups in the state sector are concluded between the Ministry of Finance (Department of Personnel Policy) and the employees' trade unions. The number of trade unions representing state sector employees is 117 and the majority of them are organized into five main federations. In the last round of negotiations many of the unions formed groups or cartels to negotiate a common collective agreement so the total number of collective agreements is 43. Since the reform of the pay system in 1997 the conclusion of the collective agreement with the respective union or union cartel, is followed by negotiations at agency level between the management of the agency and the unions represented in the workplace. No industrial action may be taken while these negotiations are underway. The parties conclude local collective agreement, which is usually called "Institutional contract", about the rules concerning the placement of positions and individuals and what factors and conditions should govern this placement.

In the periods between the collective bargaining, the Department of Personnel Policy and the main federations cooperate, on an ongoing basis, on various projects of mutual interest. They include, for example, organisation of theme days or seminars, the publication of joint guidelines on general codes, discussions of EU issues, the launch of surveys etc.

2.5 Representatives of employees' trade unions at the workplace

The senior management of state sector agencies has, as any other employer, the right to manage and distribute work. The development of agencies in the state sector depends, however, to a very high degree on employee participation as well as on dialogue and cooperation both in formal and informal cooperation at the workplace.

At the individual agency/institution, there are representatives of employees' trade unions, provided there are five or more employees in accordance with the collective agreement/trade union agreement in question.

The employees, for the purpose of, among other things, safeguarding their interests in relation to management, elect representatives of employees' trade unions. Furthermore, the representative of an employees' trade union is to a certain extent involved in local pay negotiations on behalf of the trade union, and acts in general as the link between management on the one hand and the employees and the trade union on the other.

Due to their particularly exposed position, representatives of employees' trade unions are in need of special protection against unfair dismissal and transfer. Therefore, special procedural rules apply in connection with the dismissal and transfer of these representatives, and there must be compelling reasons for the dismissal of a representative of an employees' trade union to be deemed fair.

3 Status of employment

Ministries, government agencies and institutions are basically free to recruit personnel according to local wishes and needs. Almost all state sector units are framework-financed. Therefore the primary limitation is the total budget.

Persons working in the state sector are as a main rule employed under collective agreements or in a minority of cases as civil servants.

Since 1 July 1996, when the new Government Employees Act came into force, appointment as civil servants is confined to special positions. Accordingly, it is usually Directors-General, judges as well as police and prison staff that are employed as civil servants. Other groups are typically employed on collective agreement terms.

3.1 Agencies recruit all staff except senior management

The minister responsible for the concerned agency appoints, for a fixed term, the Director-General who heads that agency, and in a few cases, other senior officials. All other staff is recruited, usually on a permanent contract, by each individual agency. Consequently there is no central recruitment procedure into a civil service career as such. Instead each agency determines the staff it requires, both in numbers and type of skills. Careers in the traditional sense still exist for groups such as police, customs and prison wardens, Foreign Service staff and judges. In these cases the respective agency is responsible for recruitment and training. The previous distinction between civil servants, white-collar and blue-collar employees has very little significance today.

3.2 Open and transparent recruitment procedures

The main rule is that all vacancies of jobs or posts are to be advertised externally, for civil servant's posts in the Official Gazette and for others on the "Job Portal" on the Ministry of Finance website or in a daily newspaper which must have a nationwide distribution. The Government Employees Act only sets out the minimum criteria for selecting staff, which are; minimum age (18), control of own finances (if required for the job/post), necessary physical and mental health, necessary skills or education (as defined by the agency) and Icelandic nationality. In the advertisement the agency concerned must produce a detailed job description, where the specific education, skills, professional experience etc. set as requirements for the job must be outlined as well as the general terms of employment. Each agency decides its own selection methods. Broadly they are the same as in the private sector, generally including interviews.

The recruitment process is defined as falling under the auspices of the Administrative Procedures Act and therefore, the decision made, can be appealed to the minister concerned. The minister cannot rule out the decision, but if his conclusion is that the procedure was not in accordance with the rules of a fair procedure, he can discipline the Director-General, and the person in question could have a right to compensation. It is transparent in the sense that all applications and underlying documentation in the form of the aforementioned specification profiles, required competence etc. are defined as public documents and as such accessible to the general public and media according to the Access of Information Act.

3.3 Career development

The independence of the agencies means that there is no fixed central career development process. Career development is the dual task of the agency and the employee. It is most often achieved through the development of his/her duties within the same job/position. Responsibilities are commonly broad and include considerable opportunity to improve, both competence and salary levels. Evaluation dialogues are widely used to review performance and potential future training and possible promotion. It is of course also a possibility to change job. State sector employees are given no precedence when applying for vacant jobs/posts. They must compete on equal terms with applicants from within or outside the state sector.

3.4 Employment under a collective agreement

Those employed under a collective agreement conditions are generally given a permanent contract with a trial period ranging from three to twelve months.

In appendix 1 there is a more detailed description of the general conditions to be found in a typical collective agreement.

3.5 Employment as civil servants

Under the Icelandic Constitution, Icelandic nationality is a prerequisite for employment as a civil servant (with respect to employment of foreign nationals, please see below).

Detailed employment terms for civil servants are laid down in the Civil Servants part of the Government Employees Act. It regulates issues regarding official duties, fixed-term employment, disciplinary rules, dismissal and pension. They have limited rights to collective bargaining and as for senior civil servants, their wages and other employment conditions are fixed by a special Wage Tribunal, which also decides the wages for members of Parliament and judges.

Issues regarding pay and other employment terms for those of the civil servants who have the right to negotiate are agreed between the Personnel Policy Department in the Ministry of Finance and the respective trade unions.

3.6 Differences between civil servants and other employees groups

The most significant difference between civil servants and other groups of employees is that civil servants have fixed term appointments, they have no right to strike, they have limited rights to collective bargaining and they are entitled to up to twelve months' severance pay if they are dismissed due to abolition of their posts.

3.7 Fixed-term employment

Fixed-term employment is based on special rules in the Government Employees Act, the Act on Fixed-Term Appointments etc.

According to the Government Employees Act, all civil servants have five years fixed-term appointments, which are automatically prolonged for another five years unless the respective

minister decides, six months prior to the end of each five years period, to announce the position vacant.

Staff employed under a collective agreement may have fixed-term appointments up to a maximum of two years.

The objective of fixed-term employment is to achieve greater mobility and flexibility and a broader basis of recruitment, especially in connection with the appointment of Directors-General.

3.8 Employment of foreign nationals

Like Icelandic nationals, foreign nationals may be employed on collective agreement terms.

Appointment as civil servants is only possible provided the employee has Icelandic nationality (section 20 of the Icelandic Constitution).

In accordance with the rules on the free movement of labour, citizens from the other countries in the EC and the EEA enjoy the same opportunities of employment in positions where individuals with Icelandic nationality are employed as civil servants. This right applies subject to restrictions that are justified by regard for public order, public security and public health.

The rules governing the free movement of labour do not apply to positions in public administration. According to the practice of the European Court of Justice, this exemption applies only to positions that entail the exercise of public authority and responsibility for safeguarding the general interests of the state or other public authorities.

In general, there is no requirement of Icelandic nationality in connection with appointments in central government administration.

4 Pay and pension

Since 1997, a wage reform has been implemented in the Icelandic state sector through collective agreements. Under this reform, practically all state employees have changed from old to new pay systems.

The wage reform implies

- that pay formation is decentralised to agency level where there is maximum knowledge of the actual working conditions and the qualifications and effort of employees,
- that the pay development of employees is to reflect the performance and qualifications of the individual staff member to a greater extent than previously and
- that pay is to be seen as a management instrument to help motivate employees and to achieve a more effective state sector.

The wage reform is an integral part of the personnel and management policy in the state sector.

4.1 Pay formation in the Icelandic state sector

Pay formation is a three stage process in the state sector. The first stage is by traditional collective bargaining agreements, where the main components of the total remuneration, other employment conditions and general pay increases are decided upon. The second stage is at agency level where the agency's senior management and the unions concerned are to negotiate a local contract (Agency/Institution contract) on categories of job classification, how they should be linked to the pay scale of the particular union and what provisions should be taken into account when considering promotion following changes for an example in further training/education of the employee or changes in his/her performance or how experience, inside or outside the agency, should be measured or how responsibility, due to changes in job description, should be measured. The third stage is that the agency management decides where each employee is to be placed according to the terms reached at the former two stages.

4.2 Structure of the new pay systems

The most prevalent new pay system model is the basic pay scale system. The basic pay scale system consists of a basic pay scale with 18 salary grades (5% between each grade), where each grade has 8 steps (2.5% between each step). In principle each trade union negotiates its own pay scale, although many unions decided to form a coalition and opt for a common pay scale for the unions involved. Individual pay development has, as describe before, been decentralised to the individual agency.

One of the objectives of the wage reform is for a greater proportion of the pay formation to take place at decentralised level in the form of agency pay formation.

Locally agreed allowances comprise functions-related allowances, qualifications-related allowances and a one-off payment. Furthermore, performance-related pay is also an option.

In appendix I the newest version of the pay system is described in more detail.

4.3 Pension

4.3.1 Overview of the pension system in Iceland

The Icelandic old age pension system is based on three pillars. The first pillar is a tax-financed public pension scheme. The second pillar is a mandatory funded occupational pension schemes and the third pillar is a voluntary pension saving with tax incentives.

The public pension scheme pays a basic pension from the age of 67 and a means-tested supplementary pension after retirement. Public pensions in Iceland are fully financed by taxes. The public pension system provides an old age pension, disability pension and survivor's pension. The old age pension is in most cases paid from the age of 67. It is divided into a basic pension and supplementary pension. Both are means-tested but pensions received from other sources are treated differently from other income. These do not affect the basic pension and the level at which they begin to reduce the supplementary pension is much higher than for other income.

Occupational pension schemes are mostly run by private pension funds governed jointly by unions and employers. It is mandatory to pay at least 11% of total wages and salaries to pension funds. Formally this 11% is split between a 4% contribution from the employee and a 7% contribution from the employer. Wage settlements made in 2004 raise the employer's mandatory fund contribution to 8% by 2007. They pay somewhat different old age pensions depending on their financial position and the relative weights of other forms of pensions. It has been estimated that a typical general occupational pension fund will, at full maturity, be able to pay a pension amounting to 50-60 per cent of full-time earnings, giving a total replacement ratio of 60-70 per cent when the basic public pension is added. Means testing will wipe out the supplementary public pension for most people who have paid into occupational pension funds during their working life.

Employees are allowed to deduct from their taxable income a contribution to authorised individual pension schemes of up to 4% of wages. Employers have furthermore accepted in wage settlements to contribute 2% to voluntary pension saving if matched with the same percentage by the employee. The total contribution can therefore become 6% for those who have decided to pay 4% to voluntary pension schemes. The schemes have to be authorised by the Ministry of Finance. They are in most cases defined contribution individual accounts. The pension saving is not redeemable until the age of 60 and has to be paid in equal instalments over a period of at least seven years. Surveys indicate that over 40% of those active in the labour market were paying into such schemes at the end of 2002.

The contribution rate to pension funds is usually 12% of wages. The employee part is fully deductible from taxable income if it does not exceed 4%. The employer can charge his part as a cost in his accounts, making it fully deductible for tax purposes, even when it exceeds 8%. The investment returns of pension funds are tax-free. Pension benefits are taxed in the same way as income from employment

The pensions for vast majority of central government employees are regulated under the Government Employees' Pension Fund Act, which by definition falls under the second pillar or a labour market pension scheme under a collective agreement.

4.3.2 The Pension Fund for Government Employees and the Pension Fund for Nurses

The principal role of the Pension Fund for Government Employees (LSR) is to pay pensions to its members upon retirement and throughout their lives and ensure their families with a pension following a loss of income due to an impaired ability to work or due to death. The Fund receives contributions and invests them in a common fund in order to meet its liability regarding old-age pensions, disability benefits, spouses' and children's benefits. Furthermore, the Fund grants loans to Fund members and accepts and invests voluntary pension savings.

Based on assets, the Pension Fund for Government Employees is the largest pension fund in the country. The Fund had a total of 35.902 active members in 2004 and 11.186 members received pensions and other benefits. The Fund pays one-third of all pensions and benefits paid by Icelandic pension funds.

The Fund operates in three divisions, divisions A and B and a division for individual retirement accounts. All divisions operate under the same Board but are financially separate from each other. The Pension Fund for Government Employees operates in close co-operation with the Pension Fund for Nurses. The two funds share facilities and staff members.

Division A

Division A of the LSR is fully funded. Benefit rights are based on the amount of contributions collected. All employees that are being paid in accordance with collective agreements for public employees of the state or state entities as well as certain municipal employees are entitled to become members of LSR. Amongst fund members, there are large groups of teachers, healthcare staff, policemen and others.

The contribution paid to division A amounts to 15.5 per cent of total contributions. The employee pays 4 per cent and the employer 11.5 per cent. Both parties, i.e. the employee and the employer, pay their part of the premium as long as the employee is employed in a post that qualifies him/her for membership in the Fund. A contribution ceases to be paid to the Fund at the end of the month when the member reaches 70 years of age. All employees recruited after 1996 pay into division A.

Division B and the Pension Fund for Nurses (LH) (The older system)

The older system of the LSR is a mixed system that is partially based on funding from accumulated contributions and in part from supplemental contributions from public sources (the budget). The rights of fund members in division B and LH is based on their working life and the relative proportion of full-time work.

These divisions were closed to new fund members at the end of 1996. Those members that possess rights in these divisions still preserve them in division B or LH according to the rules of the funds.

Pensions and benefits

The Pension Fund for Government Employees and The Pension Fund for Nurses pay:

- old-age pensions
- disability benefits
- spouses' benefits
- children's benefits.

Members in division **B** and **LH** have a right to an old-age pension at the age of 65. If a member has paid contributions for three years or more, the pension is price-indexed; whereas in case of a contribution payment-period of less than three years, it is not.

The old-age pension right also commences at the age of 65 in division **A**. Members of division **A** can begin to draw a pension when they choose to between the age of 60 and 70 years with a commensurate decrease/increase in pension benefits.

Fund members must apply for pension from the fund and payments are then transferred to the member's bank account on a monthly basis.

Division S for individual retirement accounts in LSR

Contributions paid to division **S** are in addition to those contributions paid to divisions **A** and **B**. Account balances in division **S** are the property of the account holder and constitute an inheritance in a similar manner as other personal property. The advantages of individual accounts are:

- The employee has a right to a counter-contribution from the employer and the state. The counter-contribution is 2.2 per cent against a 2 per cent contribution of the fund member and 2.4 per cent against a 4 per cent contribution.
- Balances in individual retirement accounts are neither subject to net wealth tax nor to capital income tax.
- Such balances do not count in the computation of tax-related children's benefits or interest rebates from the state.
- Contributions paid are not subject to income tax, thus creating a tax benefit.
- The savings may be inherited.
- Withdrawal can commence at the age of 60.
- Disposable income during the pension years is augmented and the personal tax allowance is more fully utilised.
- This form of savings is convenient as the employer deducts the saving from the pay cheque and transfers it to the individual retirement account.

To qualify for membership in division **S**, one must be a member of or have paid contributions to one of the following:

- The Pension Fund for Government Employees, including members of Parliament and Government ministers.
- The Pension Fund for Nurses
- Other public employees receiving salary according to public employee pay rates.

5 Other terms of employment

5.1 Maternity/paternity leave and adoption leave

Under Icelandic legislation, parents have a joint right to absence from work for a period of nine months of leave, divided so that the mother and father are each entitled to three months of leave that is non-transferable to the other parent. The remaining three months can be freely divided between the parents. The leave time must be used before the child is 18 months old. The mother has a right to take pregnancy leave four weeks before childbirth. The mother must be on leave for the first two weeks following birth. Parents without custody are entitled to leave if the parent who does have custody of the child agrees to it (Act on Maternity/Paternity Leave and Parental Leave, No. 95/2000, as amended by Act No. 90/2004).

Parents (active in the labour market) are paid 80% of their average salaries during the leave and the payments come from a specific state operated fund, financed through an insurance levy on all employers.

Parents must inform their employer how and when they want to use their parental leave. People can either take the entire leave at once, or divide the time into shorter periods of no less than two weeks each as long as agreement with the employer is reached. If the employer does not accept a parent's request, the employer must provide a written statement as to the reason why and a proposal for how to proceed. Parents have the right to take their leave in such a way that they reduce their time at work and take out part of the leave time while they work, until the child reaches the age of 18 months (Act on Maternity/Paternity Leave and Parental Leave, No. 95/2000, as amended by Act No. 90/2004).

Apart from the biological mother's pregnancy leave, adoptive parents have the same right to flexible planning of absence and benefits in connection with adoption.

5.2 Child-care leave

Under Icelandic legislation, parents also reserve the right to unpaid leave in order to be at home with their children. Each parent has the right to 13 weeks of leave, which becomes void unless used prior to the child's eighth birthday (Act on Maternity/Paternity Leave and Parental Leave, No. 95/2000, as amended by Act No. 90/2004).

5.3 Other types of leave

Subject to application, an employee may obtain leave for a limited period of time, for example in connection with a job change. To which extent and for which purposes leave may be granted will depend on the practice of the individual institution and, among other things, on the possibility of reemployment.

However, when working in the service of international organisations that Iceland is a member of or cooperates with as, for example, the UN, the EFTA and NATO, the employee has a genuine legal claim to leave.

5.4 Senior schemes

The Icelandic state sector wishes to develop and retain experienced staff. Therefore, diversity in relation to age is considered an absolute necessity for the purpose of good performance of tasks. For this reason, it is possible to make an agreement to the effect that, employees that have reached their retirement age, works part-time, while at the same time receiving pension payment, or an agreement that managers are transferred to a lower-ranked position, but receive pay for the higher ranked position.

5.5 Dismissal

The rules governing dismissal depends i.e. on whether the employee terminates his/her employment or is dismissed by the employer, and if dismissed by the employer on what basis it was done.

An employee may tender his/her resignation with a three months notice. No reasons are required for a resignation.

The period of the employer's notice of dismissal differs between the different groups of employees. For the vast majority of staff employed under a collective agreement, the rule is that the notice of dismissal is increased from one month (in the course of the first three months' employment) to six months (after 10 years on the job and the employee is over 63 years old).

For civil servants, the notice of dismissal is three months.

Any dismissal by the employer must be based on a reasoned argument relating to the circumstances of the agency (i.e. insufficient funds, restructuring or the like) or to the conduct of the employee (i.e. lack of aptitude, too much absence due to sickness or cooperation problems). The employee has the right to require a written statement of the basis for the dismissal. If the basis for dismissal relates to the circumstances of the agency no admonition is required prior to the dismissal. If however the basis of dismissal relates to the conduct of the employee, admonition is required prior to dismissal and for both instances a grievance procedure is to be followed.

Dismissal of all groups of employees may be tried before the ordinary courts of law.

Civil servants may be temporarily suspended, if they are suspected of a criminal offence, if they are bankrupt/insolvent or if their performance is insufficient. Their case is then investigated by a special "Discipline Committee" and if its conclusion is that the decision was based on sound arguments the employer must dismiss him/her. During temporary suspension the civil servant receives half of his wages. If he/she however is cleared by the committee he/she will get his/her post back and full wages for the suspension period.

If a civil servant's post is abolished he is entitled to severance pay, which is six month's pay if he has worked less than 15 years, and twelve month's pay if he has worked longer than 15 years.

Appendix I - Example of the main elements of a collective agreement

Structure of collective agreements

The structure of collective agreements varies according to union and employer, but certain items are common to most of them. They stipulate wages and wage increases during the term of the agreement. The agreements also discuss working hours and breaks during the working hours. The agreements define what constitutes overtime and payments for overtime, as well as holidays and paid vacation. A minority of agreements have priority or closed shop clauses. Agreements also discuss conditions in the work place and insurance, such as accident insurance and sickness insurance. Some discuss the tools needed for doing the job at hand, protective clothing, etc. Also, some specify termination of work, conditions and advance notice. Increasingly, agreements discuss continuing education and financing of attaining advanced degrees. Most agreements also discuss the general goal of the agreement as viewed by the contracting parties. Trigger clauses for the agreement are often included, for instance if inflation exceeds a certain limit, the agreement might be terminated or parts of the agreement eligible for review, especially the chapter on wages and wage increases.

When a new collective agreement is signed, the new agreement usually only stipulates the changes from the old underlying agreement and thus, the new agreement is only a few pages in length. The underlying agreement is then reissued with the new stipulations added.

A brief description of the main elements of the collective agreement for the Alliance of Graduate Civil Servants follows.

1. Overview

The agreement was signed by 23 unions under the umbrella of BHM (The Icelandic Association of Academics). The term of the agreement is from 1 February 2005 to 30 April 2008.

There were two main aims of the negotiating partners to the agreement. One was that the reform of the pay system would further encourage the decentralization of pay formation to agency/institution level where there is maximum knowledge of the actual working conditions and the qualifications and effort of employees, that the pay development of employees is to reflect the performance and qualifications of the individual staff member to a greater extent than previously and that pay is to be seen as a management instrument to help motivate employees and to achieve a more effective state sector. The pay reform is an integral part of the personnel and management policy in the state sector. The other was to obtain a considerable rise in the starting salaries of BHM members, to raise the salaries of those member unions which had the lowest pay scales and to increase the transparency of the pay system to facilitate comparison between professions and gender. The balancing of various pay scales and average basic placement within the system resulted in variable initial increases for the unions. Highest increases were obtained within unions with lowest basic placement (12.3%). No union obtained initial increases lower than 4.5% from 01.02.2005. The Icelandic Nurses' Union (which is the largest one in BHM) for an example received a raise of 5.41%.

The general wage increases during the term of the agreement are as follows:

01.01.2006	2.50%
01.01.2007	2.25%
01.01.2008	2.00%

2. Definitions

Centralised collective agreement: a centralised collective agreement is a collective agreement made between each individual trade union and the Minister of Finance, on the one hand, on behalf of the State Treasury.

Institutional contract: an agreement within each agency/institution about the rules concerning the placement of positions and individuals and what factors and conditions should govern this placement. Institutional contracts are made between union representatives and representatives of the agency/institution and are deemed an integral part of the union's centralized collective agreement. Institutional contracts vary between agencies/institutions.

3. Pay scale to take effect on 1 May 2006

The pay scale stipulates the monthly wages for regular daytime work, based on the 40 hours working week. This is followed by guidelines about what should be the minimum requirements taken into consideration when placing jobs and individuals on the pay scale.

Remuneration on account of personal and/or temporary factors

Grade (ISK)	Steps								
	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	
01	200.000	205.000	210.000	215.000	220.000	225.000	230.000	235.000	240.000
02	210.000	215.250	220.500	225.750	231.000	236.250	241.500	246.750	252.000
03	220.500	226.013	231.525	237.038	242.550	248.063	253.575	259.088	264.600
04	231.525	237.313	243.101	248.889	254.678	260.466	266.254	272.042	277.830
05	243.101	249.179	255.256	261.334	267.411	273.489	279.566	285.644	291.722
06	255.256	261.638	268.019	274.401	280.782	287.163	293.545	299.926	306.308
07	268.019	274.720	281.420	288.121	294.821	301.522	308.222	314.922	321.623
08	281.420	288.456	295.491	302.527	309.562	316.598	323.633	330.669	337.704
09	295.491	302.878	310.266	317.653	325.040	332.427	339.815	347.202	354.589
10	310.266	318.022	325.779	333.536	341.292	349.049	356.805	364.562	372.319
11	325.779	333.923	342.068	350.212	358.357	366.501	374.646	382.790	390.935
12	342.068	350.620	359.171	367.723	376.275	384.826	393.378	401.930	410.481
13	359.171	368.151	377.130	386.109	395.088	404.068	413.047	422.026	431.006
14	377.130	386.558	395.986	405.415	414.843	424.271	433.699	443.128	452.556
15	395.986	405.886	415.786	425.685	435.585	445.485	455.384	465.284	475.184
16	415.786	426.180	436.575	446.970	457.364	467.759	478.153	488.548	498.943
17	436.575	447.489	458.404	469.318	480.232	491.147	502.061	512.976	523.890
18	458.404	469.864	481.324	492.784	504.244	515.704	527.164	538.624	550.084

18 vertical pay grades – 5% increase between grades

Placement of jobs within grades shall above all take aim of the role and responsibility of the position as well as qualifications (knowledge/specialization) required for the job. Job descriptions are a vital necessity.

8 horizontal steps 2.5% increase between steps

Personal and temporary factors shall be assessed with a view to added workload. This must be regularly revised. This kind of remuneration may reach up to a total of 20% of the corresponding pay grade in steps of 2.5%. The agency/institutional contract shall specify whether and how such remuneration is to be awarded.

Personal factors contributing to improved work performance include, but are not restricted to:
Additional education applicable to the workplace and work experience.

Temporary factors that may be considered include, but are not restricted to:
Added responsibility and/or workload on account of specific projects, qualifications, special achievements and/or performance.

4. A single common agency/institutional contract for BHM member unions

A single common institutional contract shall be made at each agency/institution for the BHM unions participating in this agreement. In the event of failure, the matter shall be referred to the conciliation board (see art. 6). A new institutional contract shall enter into effect on 1 May 2006.

All BHM unions at an agency/institution shall nominate one member each to represent them on a collaboration committee. These representatives shall select up to three spokespersons and three alternates. The agency/institution nominates three representatives and an equal number of alternates.

Role of collaboration committees: The collaboration committees are entrusted with the preparation, revision and amendment of the agency/institutional contract. It has the dual function to:

1. Negotiate the placement of positions and what factors and conditions should govern this placement.
2. Negotiate which factors or conditions should determine the assessment of personal or temporary factors.

5. Funds for preparing agency/institutional contracts

On 1 May 2006 agency/institution shall receive 3.8% of its total salary costs of the employees unions concerned to meet expenses rising from placements (of the individual) in pay grades and steps and the harmonisation of former agency/institutional contracts.

On 1 May 2007 agency/institution shall be given financial scope to develop the new pay system amounting to a total of 2.6% of the salary costs of the employees unions concerned.

6. Special temporary remuneration

The contract allows for the payment of specific remunerations on top of basic salaries, however never higher than ISK 30,000 pr month. This shall be on account of exceptional temporary factors and never exceed the actual period of exceptional circumstances. Decisions on such remunerations shall be taken by the agency/institutional Director General (Chief Executive).

Examples for the implementation of this clause include increased administrative workload, temporary projects, increased responsibility or workload with view to job description and increased workload on account of staff shortages.

7. Conciliation board

The conciliation board is comprised of 6 representatives, three from the Ministry of Finance and three from BHM.

The role of the conciliation board is to handle issues that have been referred to it by parties to the institutional contract. The committee may rule on cases which set the trend for future interpretations as well as issues concerning the implementation and development of pay settlements in the institutional contract.

8. Common information seminars

Participants in the agreement agree that a new pay system calls for extensive dissemination of information, particularly as regards required job descriptions based on the occupational categories which form the basis of placement in the pay scale. The target groups for such information seminars will be the members of collaboration committees, both agency's/institution's and employee's representatives.

9. Working time and minimum rest period

(Section 2 of the collective agreement)
40 hour work week

The work week of employees working fulltime shall be 40 hours unless a shorter work time is specially agreed to. It is permitted to orchestrate moving one's work obligation between weeks or seasons.

Special holidays

Special holidays are:

1. New Year's Day
2. Maundy Thursday
3. Good Friday
4. Saturday before Easter
5. Easter
6. The day after Easter
7. First day of summer
8. 1 May
9. The Ascension
10. Whitsunday
11. The Monday after Whitsunday
12. 17th June (National Holiday)
13. Shop workers' holiday (first Monday in August)
14. Christmas Eve after 12 o'clock noon (24th of December)
15. Christmas Day (25th of December)
16. The day after Christmas (26th of December)
17. Last Day of the Year's Eve after 12 o'clock noon

Of the special holidays, the following are major holidays:

1. New Year's Day
2. Good Friday
3. Easter
4. Whitsunday
5. 17 June
6. Christmas Eve after 12 o'clock noon (24th of December)
7. Christmas Day
8. Last Day of the Year's Eve after 12 o'clock noon

10. The right to time off

Main rule

Working time shall be arranged so that over a 24 hour period, calculated from an organised/customary beginning of the employee's working day, the employee shall get at least 11 continuous hours off. If possible, the daily rest period shall include the hours between 23:00 and 06:00. It is forbidden to organise work so that the working time over a 24 hour period exceeds 13 hours.

If a supervisor especially requests that an employee comes to work before the obligatory 11 hours of rest have passed, the employee has the right to time off, which is 1.5 hours (day work) for every hour his rest is shortened, and if the work is extended for more than 16 consecutive hours, the right to time off accumulates for each hour that the rest was reduced according to special rules.

11. Definition of overtime and overtime pay

(Sections 1.5 and 2.3 of the collective agreement)

Definition

Overtime work is the work occurring outside the stipulated daily working time or shifts in fulfilment of an individual's work obligation. The same applies to work over and above the individual's work obligation although done during the daytime period.

Rates

All overtime work is paid at an hourly rate. The overtime hourly rate is 1.0385% of the employee's monthly wages for regular daytime work (i.e. the amount he gets according to which pay grade and step he is positioned in, in the pay scale).

All work performed on major holidays is paid at the major holiday rate, which is 1.375% of the employee's monthly wages.

Payments for emergency calls when an employee is not on call

For an emergency call on weekdays between 08:00 and 24:00, at least 3 hours of overtime work shall be paid, regardless of if actual working time is less. There are two exceptions to this rule: If regular work time commences within three hours from the beginning of the emergency call, then overtime shall be paid from the beginning of the emergency call until the beginning of the regular work time.

If the emergency call finishes before three hours have passed after the end of the day work, overtime shall be paid for the time from the close of regular day work to the end of the emergency call.

For emergency calls at night, on the weekends and on special holidays, at least 4 overtime hours work shall be paid, regardless of if actual working time is less. There are two exceptions to this rule:

If regular work time begins within 3.5 hours from when the emergency call began, 0.5 hours shall be paid in addition to actual working time.

If an emergency call ends before 3 hours have passed from the end of day work, overtime shall be paid for the time between the end of day work and the end of the emergency call.

An employee and an employer may agree between themselves that instead of payment the employee receives time off. On the other hand, employees cannot be forced to take their overtime payment in the form of time off. Employees always have the right to receive full payment for overtime according to the collective agreement.

12. Shift supplement and other supplementary payments

(Section 1.6 of the collective agreement)

The shift supplement is a certain percentage of the day work hourly rate. The day work hourly rate is always calculated on the basis of the pay grade and step in the pay scale.

A shift supplement is always paid if employees work part of their work obligation outside of the regular day work period (which is between 08:00 to 17:00 Monday through Friday).

The shift supplement for each hour is the following percentage of the day work hourly rate:

33.33%	17:00 and 24:00 Monday through Thursday
55%	17:00 and 24:00 Friday
55%	00:00 08:00 Monday through Friday
55%	00:00 to 24:00 Saturday, Sunday and special holidays
90%	00:00 to 24:00 on major holidays

13. Mealtimes and coffee breaks

(Chapter 3 of the collective agreement)

An employee has a right to a one hour unpaid break for lunch between 11:30 to 13:30 unless there is a cafeteria located on the premises, then the unpaid lunch break is half an hour. Coffee breaks on the other hand are included in the work period and therefore paid and are 20 minutes, one before lunch and one after.

Employees working shifts are paid for 15 minutes extra time for each shift because of the (possible) reduction of meal times and coffee breaks. However, they may consume food and coffee while working if their work permits this. Employees working fulltime get coffee breaks paid at the overtime rate. Employees working part time get coffee breaks paid at the day work rate or as a proportion of their monthly wages.

If employees working shifts, work overtime or an additional shift, in addition to the regular working time, they shall receive an extra payment for 12 minutes for each worked hour unless an employee takes mealtimes and coffee breaks while on shift. Then mealtimes and coffee breaks shall be counted as work time up to 12 minutes for each worked hour. These coffee breaks are always paid at the overtime rate.

14. On call shifts, time off for on call shifts

“On call” means that an employee is not at work but is ready to respond immediately to an emergency call.

Time off for “on call” shifts:

The time off for on call shifts is 80 obligatory hours for every 1200 hours on “on call” shifts during the year. More time off is not granted for more than 1200 hours during the year for on call shifts.

This time off may be granted at any time of the year in consultation with the supervisor, but it may not be transferred between years.

The hours worked on “on call” shifts shall not be subtracted when “on call” hours are counted. When a employee working part time takes time off for “on call” shifts, he or she shall receive full wages during the time off, provided that the time off is taken continuously.

15. Vacation

(Section 4 of the collective agreement)

The vacation year is from 1 May to 30 April during which period the right to paid vacation is earned.

The summer vacation period is from 1 May to 15 September. If vacation is taken outside this period each day is only counted as 80% of a full day (Example: five days vacation would count as four days on vacation).

The length of vacation depends on age. The minimum length of vacation is two days or 16 obligatory hours for each earned month in fulltime work. The table below shows earned vacation by age.

Earned vacation/right to vacation:

Age	Obligatory hours	Work days per year	per month per year
< 30	192	16	24
30	216	18	27
38	240	20	30

The table shows earned vacation or the right to vacation, based on fulltime work. The assumption is that vacation lengthens if the employee turns, for example, 30 during the calendar year in which the period of summer vacation falls. It makes no difference when during calendar year the employee turns 30. If the employee has worked part time or part of the year his right is proportional.

The employer pays 10.17% for those under 30, 11.59% for those between 30 and 38 and 13.04% for all 38 or older, of all wages for supplements and overtime, into a special vacation savings account, which is paid out, with his regular wages, when the employee plans to take his vacation.

16. December wage supplement

(Section 1.7 of the collective agreement)

According to the collective agreement each employee gets a special supplement in December each year. The December supplement will be ISK 40.700 in the year 2006 and ISK 41.800 in the year 2007. The December supplement is paid proportionally, based on working time and work percentage over the period 1 January to 30 November of the same year. To have a right to payment of the December supplement, employees must fulfil either of the conditions specified below:

1. To have worked continuously since 1 September that year.
2. To have worked continuously for six months after 1 January that year.

Employees retiring during the year have a right to payment of the December supplement in December if they have worked the equivalent of at least a half work year that year.

17. Study leave

(Section 10 of the collective agreement)

If employees attend education or training courses in accordance with a request by the agency/institution, they shall continue to receive regular wages during the period and be paid all expenses, such as for trips, course fees, and per diem.

Employees can request a study leave which is up to the General Director (Chief Executive) to approve. However if he approves he has to take notice of the following guidelines. The earning of study leave is based on how long the employee has been working in the agency/institution or the profession concerned and percentage of work. The accrual of study leave is as follows:

- 1 month for each 20 work months
- 3 months for each 5 work years
- 6 months for each 10 work years
- 9 months for each 15 work years

Employees are to keep regular wages and supplements for normal working time (not overtime) during study leave. Agency/institution may on top of that pay partly or in full the expenses of courses, trips and accommodations for the employee.

18. Notices, certificates and out of pocket expenses

A medical certificate may be demanded of an employee for inability to work any time the supervisor thinks it necessary.

If any employee has not come to work because of illness or accident for more than five consecutive work days, he or she shall prove the inability to work with a medical certificate according to a further decision by the supervisor.

An employee is obligated to undergo any regular and approved medical examination that a company doctor deems necessary. An employee is reimbursed for the medical expense because of this.

19. Wages because of sickness and accident

In case of absence from work because of sickness or accident the employee is entitled to keep his wages for a specified period depending on how long he has worked in the state sector. The table below shows the employee's rights:

<i>Period of work</i>	<i>Number of days</i>	<i>Wages</i>
03 months at work	14 days	full
Next three months at work	35 days	full
After 6 months at work	119 days	full
After one year at work	133 days	full
After 7 years at work	175 days	full

Added to the above right is the right to one month's wages in the collective agreement for 13 weeks or 91 days if the inability to work stems from a work related accident or an occupational disease.

<i>Period of work</i>	<i>Number of days</i>	<i>Wages</i>
After 12 years at work	273 days	full
After 18 years work	360 days	full

However, wages are not paid for a period longer than the planned or fixed term of employment.

Sickness of children under 13

One of the parents has the right to be away from work for a total of 10 work days (80 obligatory hours, based on fulltime work) during each calendar year because of the sickness of his or her children under 13 if other identical care cannot be arranged. During these absences, an employee shall be paid regular day wages and shift supplements according to a systematic shift schedule. This right has no impact on the rights of an employee under other articles.

20. Payments to funds for sickness, vacation, education and maternity/paternity leave.

As part of the collective agreement the employer pays a certain amount into various funds. The employer pays 0.55 per cent of all wages into a family (maternity/paternity) and/or sickness fund run by the union. He also pays 0.22 per cent into a vacation fund which is often used to finance the purchase of small vacation homes around the country, which union members can rent by the week or weekend through the union. There is also a payment of from 0.85 to 1.5 per cent into an education fund, which is jointly run, used to finance remedial education for employees.

21. Resignation

The advance notice in case of resignation is 1 month after 3 months on the job and up to 6 months after 10 years on the job and the employee is over 63 years old. Resignation should be done in writing and takes effect the first of next month after the resignation.

22. Union dues

The employer collects union dues on behalf of the union.

23. Shop stewards

Employees can elect one shop steward in a workplace with 5 to 50 employees and two if there are more than 50 employees. The shop steward is allowed access to certain confidential information in case of disagreements with the firm, is allowed to call workplace meetings and is allowed to attend workshops offered by the union designed for shop stewards during work hours.



Ministry of Finance