



SWEDISH

PENSIONS AGENCY

Presentation for European Association of Public Sector Pension Institutions (EAPSPI)

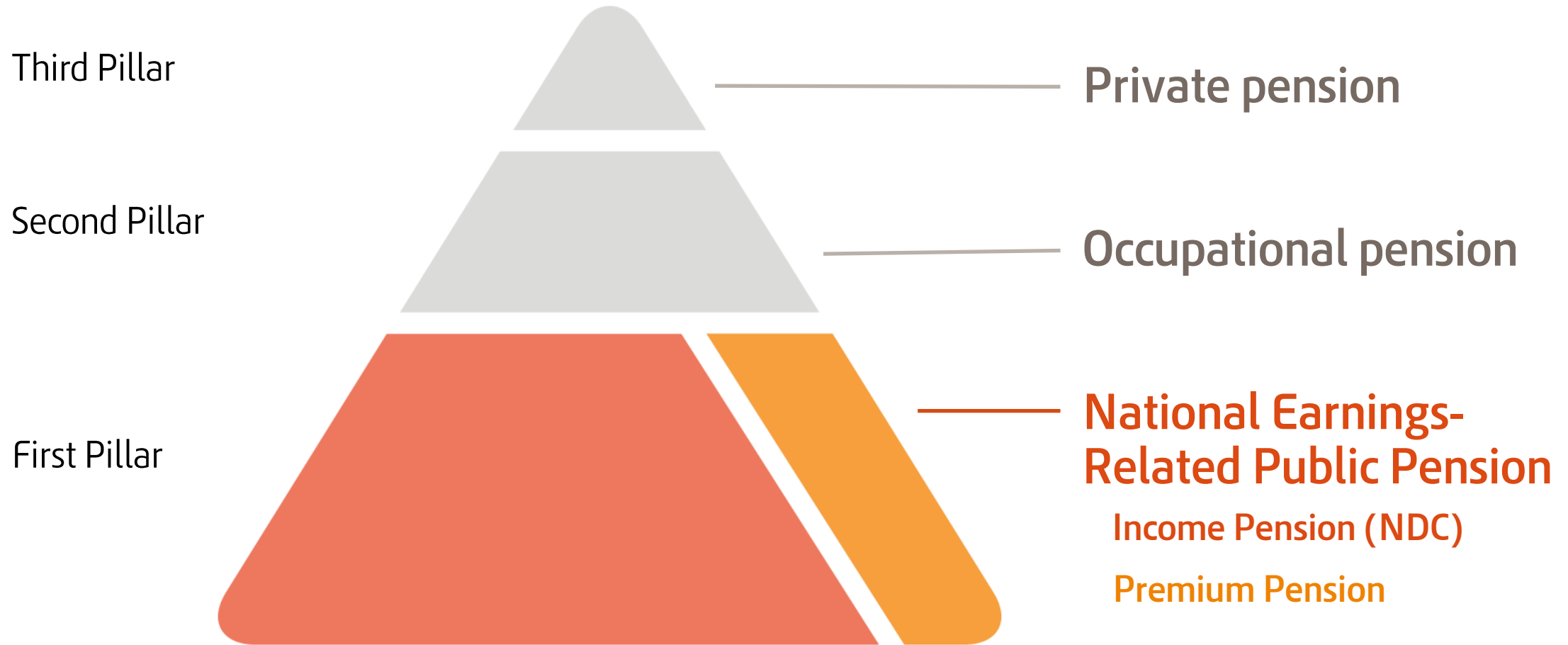
Case Study Sweden

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Donostia – San Sebastian 24 November 2023

Content

1. General Background on Pensions in Sweden
2. Objectives and Design of the Public Pension Plan
3. Some Aspects of Performance of Public (and Occupational) Pensions
4. Policy Debate and Policy Changes

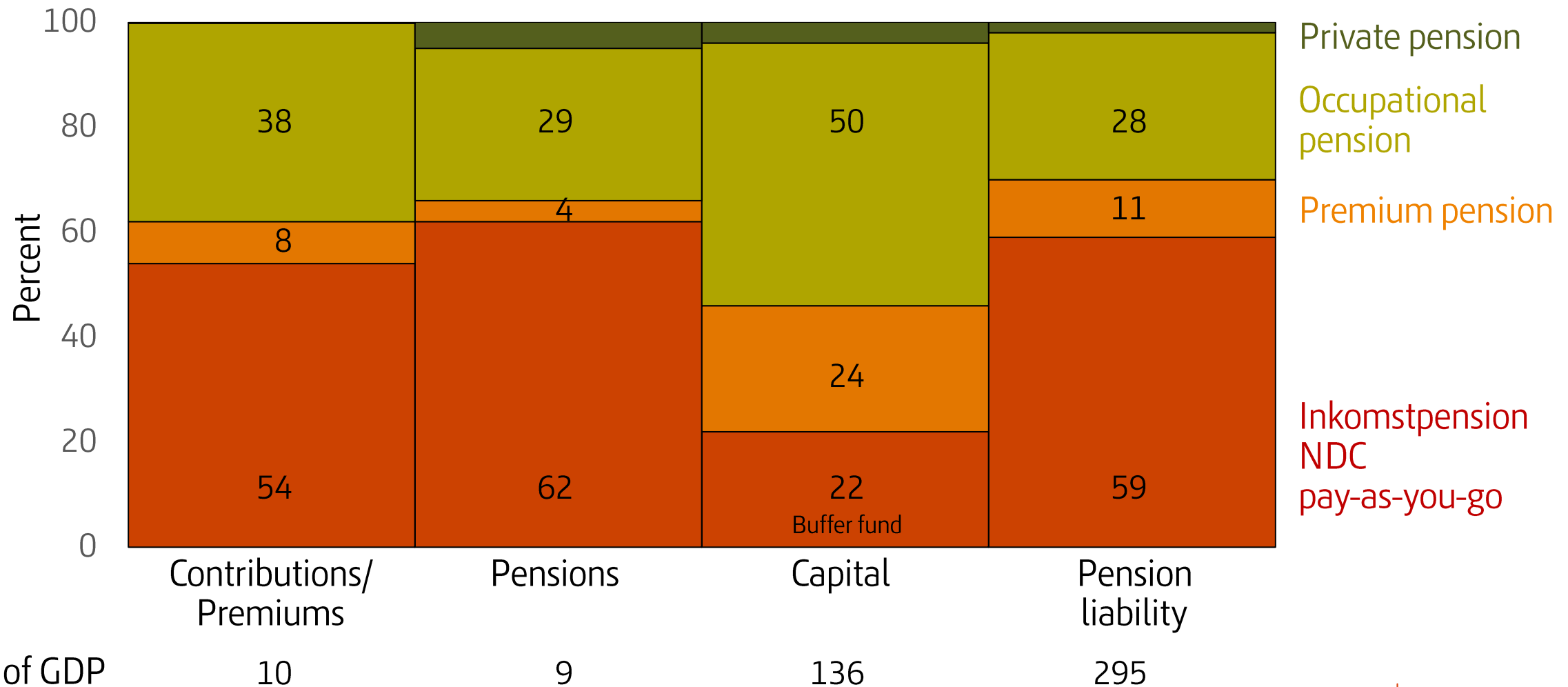
Swedish Pension Pillars



Zero Pillar

Tax financed age related benefits such as **guaranteed pension**, **income pension supplement**, **housing allowance**, **survivor benefits**, etc.

Relative Economic Size of Different Earnings Related Pensions, percent



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Policy Objectives of New Public Pension Plan (mid 1990:ies)*

1. Financial stability – fixed contribution rate
2. Intergenerational fairness – fixed contribution rate and “same” replacement rate over generations
3. Replacement rate of 60 % percent for Average Worker – if life expectancy constant or retirement age increases in line with life expectancy
4. Minimum Guarantee – tax financed
5. Introduction of a prefunded defined contribution plan within the public pension
6. Depoliticising of Pension Politics – Policy Stability

* Policy objectives 1, 2, 4 and 5 were explicit, objective 3 and 6 not as clearly stated

Methods to Achieve Policy Objectives

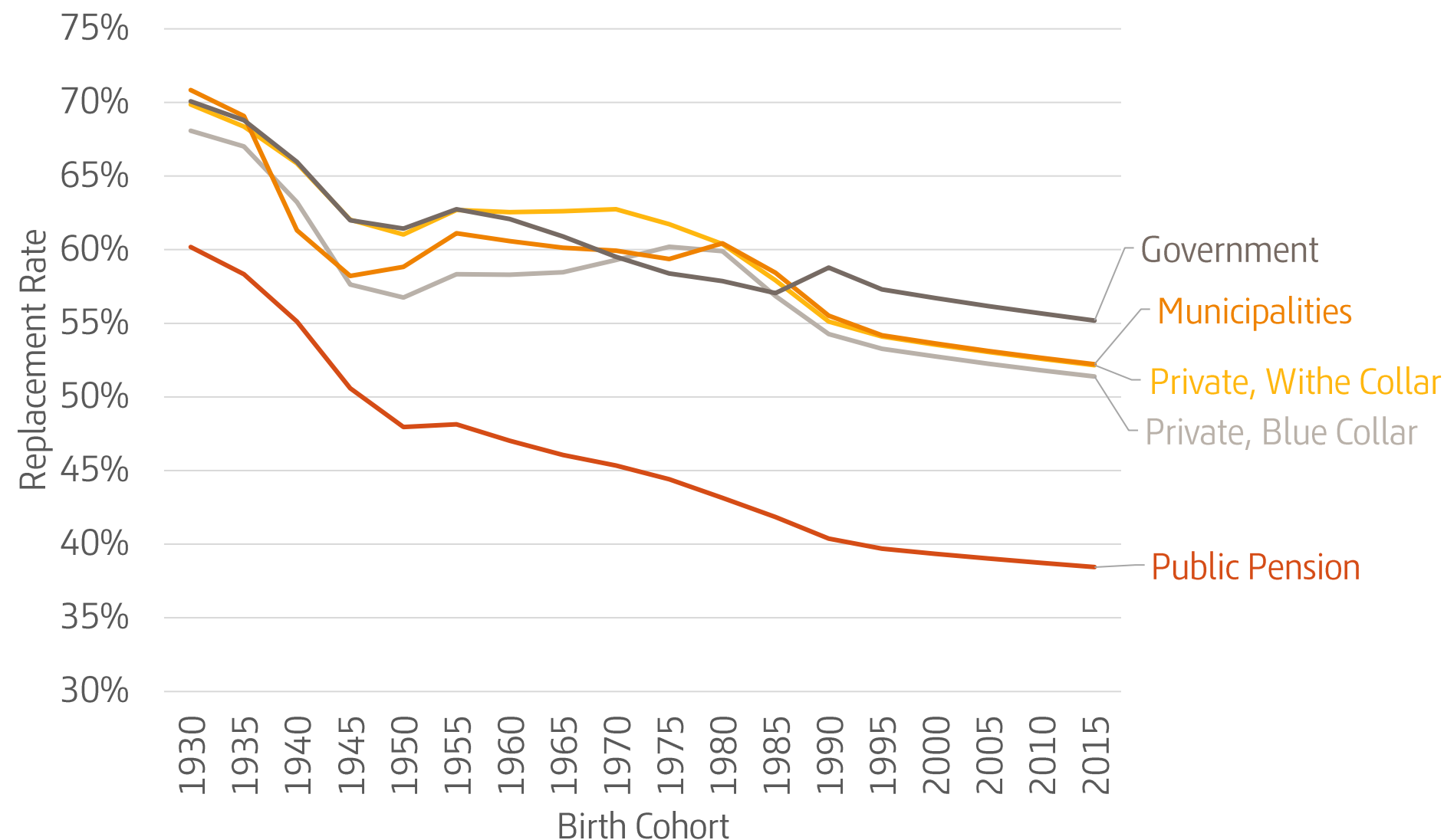
1. Financial stability: Notional Defined Contribution Plan, A notional pension savings plan:
 - (i) Contribution = pension credit,
 - (ii) contributions and pensions indexed to average earnings,
 - (iii) new benefits calculated with annually updated life expectancy,
 - (iv) automatic balancing mechanism
2. Intergenerational fairness: design according to 1. might produce "same" replacement rate over generations
3. Minimum Guarantee: The top up benefit "Guaranteed pension"
4. A prefunded defined contribution plan: The Premium Pension
5. Depoliticising of Pension Politics: The Pensions Group

Earnings Related Public Pension

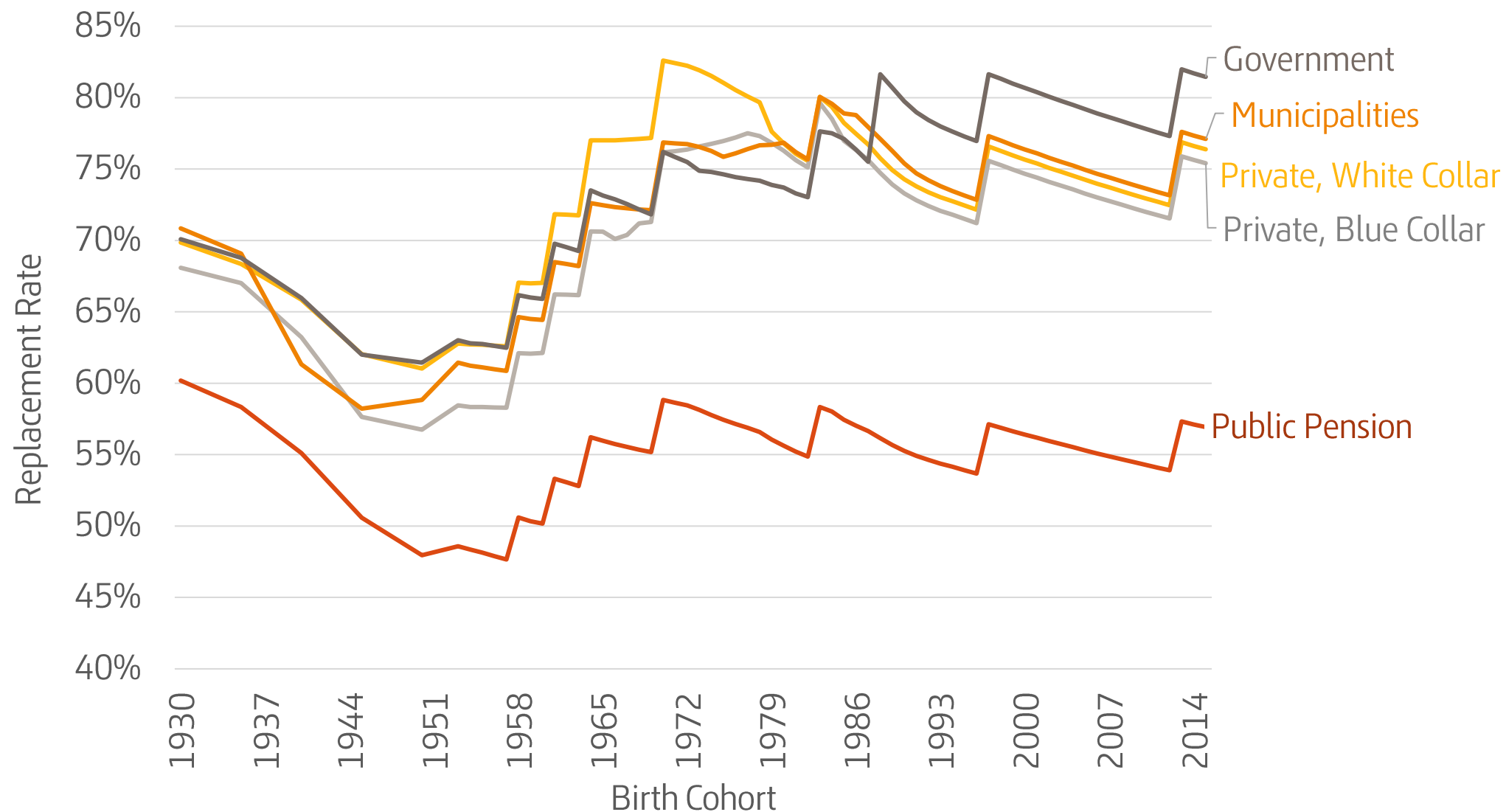
- Two Similar but Different Pension Plans – both DC, one NDC, one FDC

	Income pension	Premium pension
Contribution rate	16 % of wage (to a ceiling)	2,5 % of wage (to a ceiling)
Return	Average earnings growth in Sweden	Development of (chosen) mutual fund
Method of financing	Pay-as-you go with large buffer fund	Premium reserve, fully funded
Risk distribution	DC – collective of insured stands both “return” and demographic risks	DC – individual stands return risk, collective of insured stands life expectancy risk
Measure of financial position	Balance ratio	Solvency ratio

Average Worker Projected Replacement Rate, Retirement Age Fixed at 65



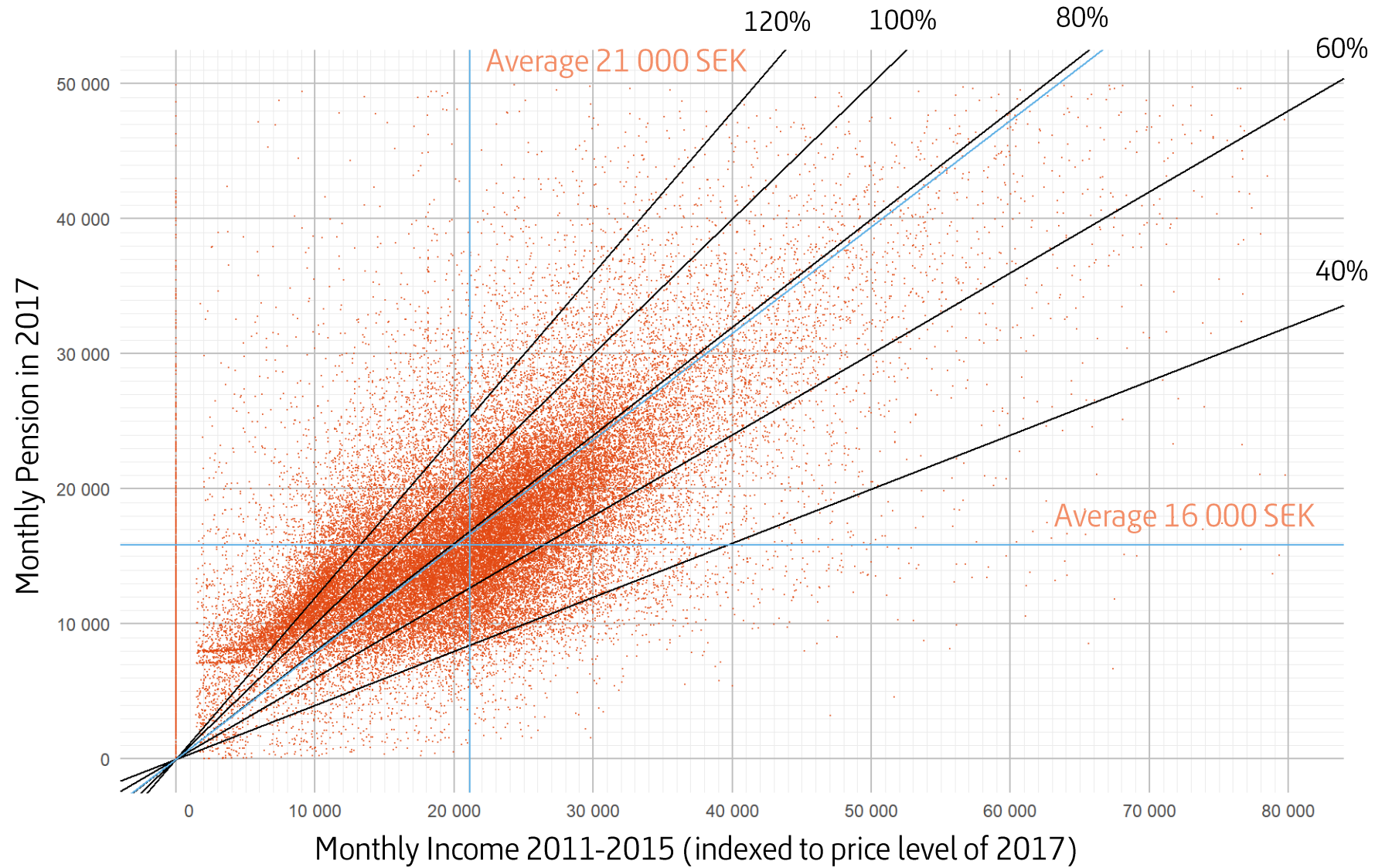
Average Worker Projected Replacement Rate, Increasing Retirement Age



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Replacement Rate for Public + Occupational Pension for the 52 159 Women Who Retired 2016

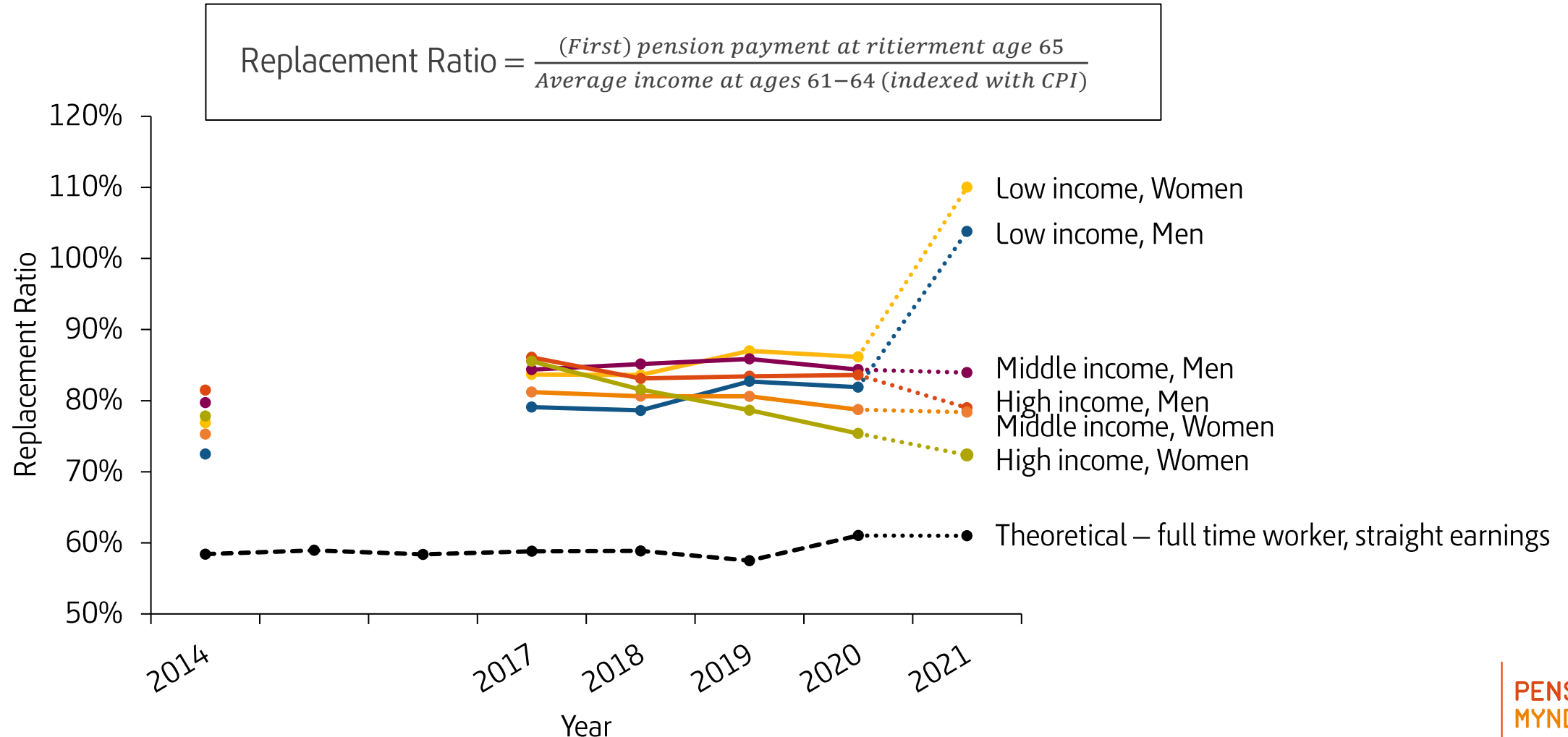


Replacement Rate for Public + Occupational Pension for the 51 117 Men Who Retired 2016



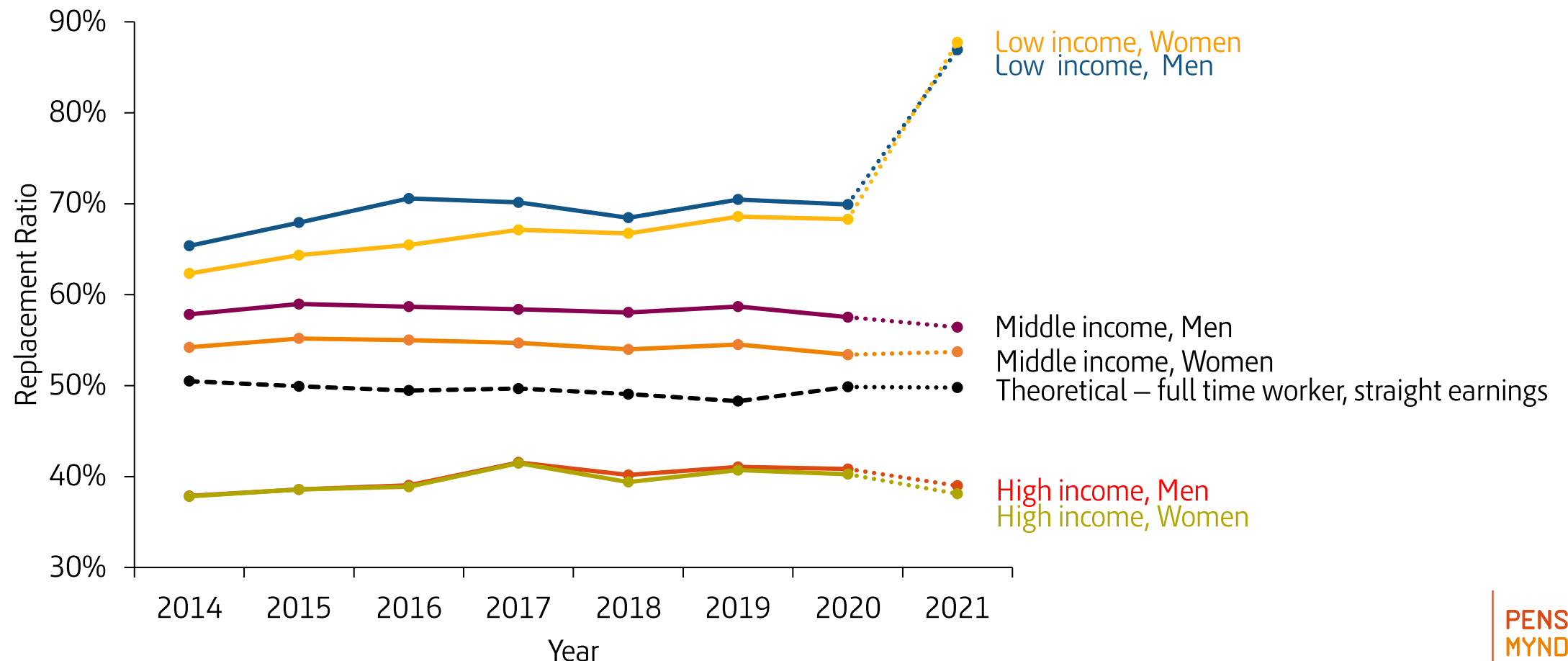
Median Replacement Ratios for Public & Occupational Pensions

➤ Median Replacement Ratios Year 2021 is between 72 and 110 %

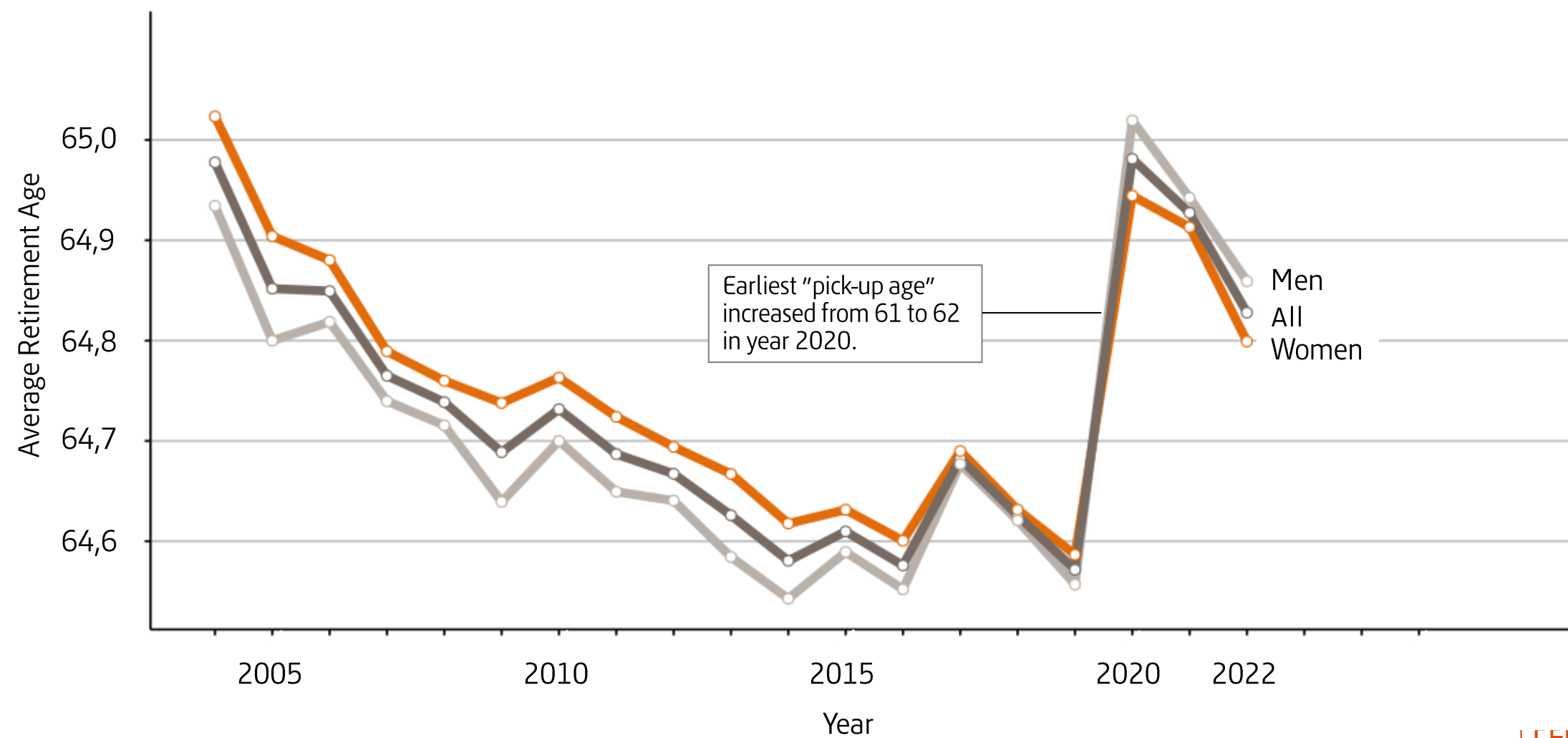


Median Replacement Ratios, Public Pensions Only

➤ Median Replacement Ratio Year 2021 is Between 38 and 88 %

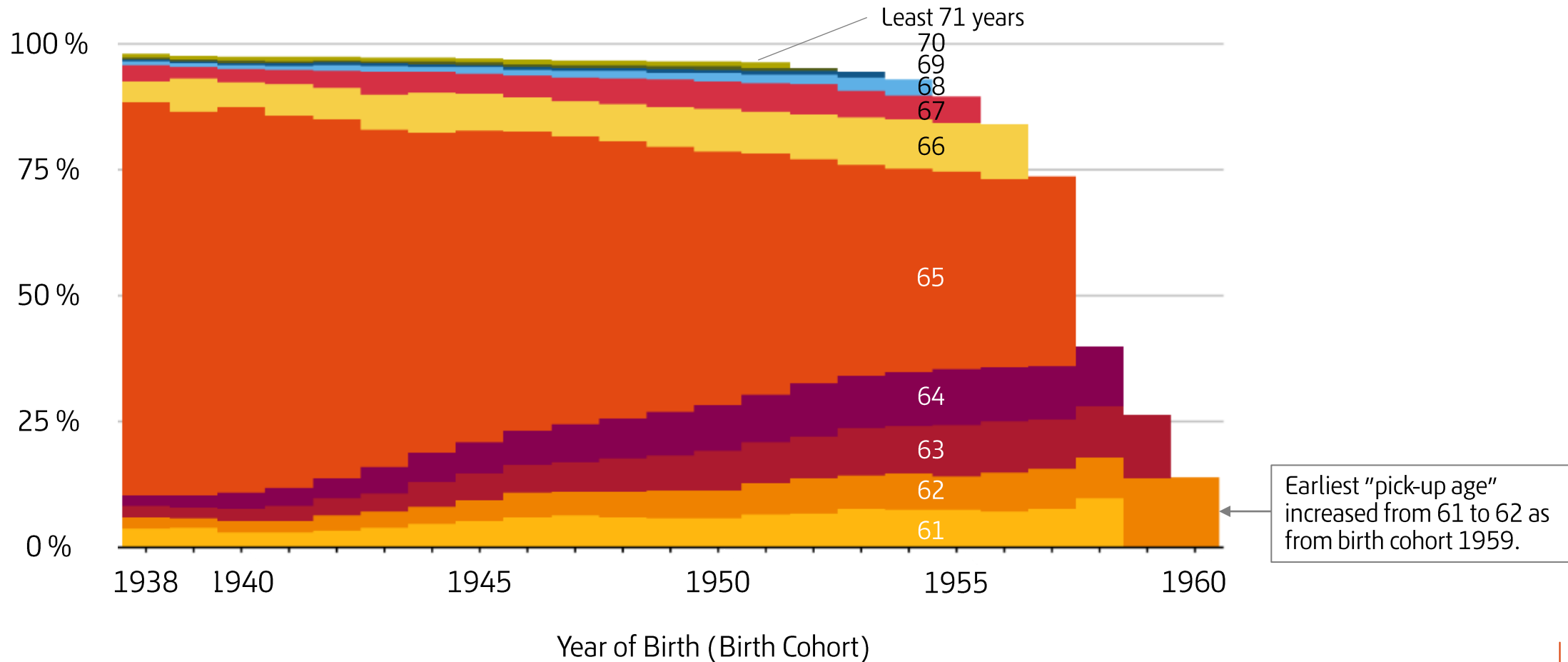


Average Retirement Age



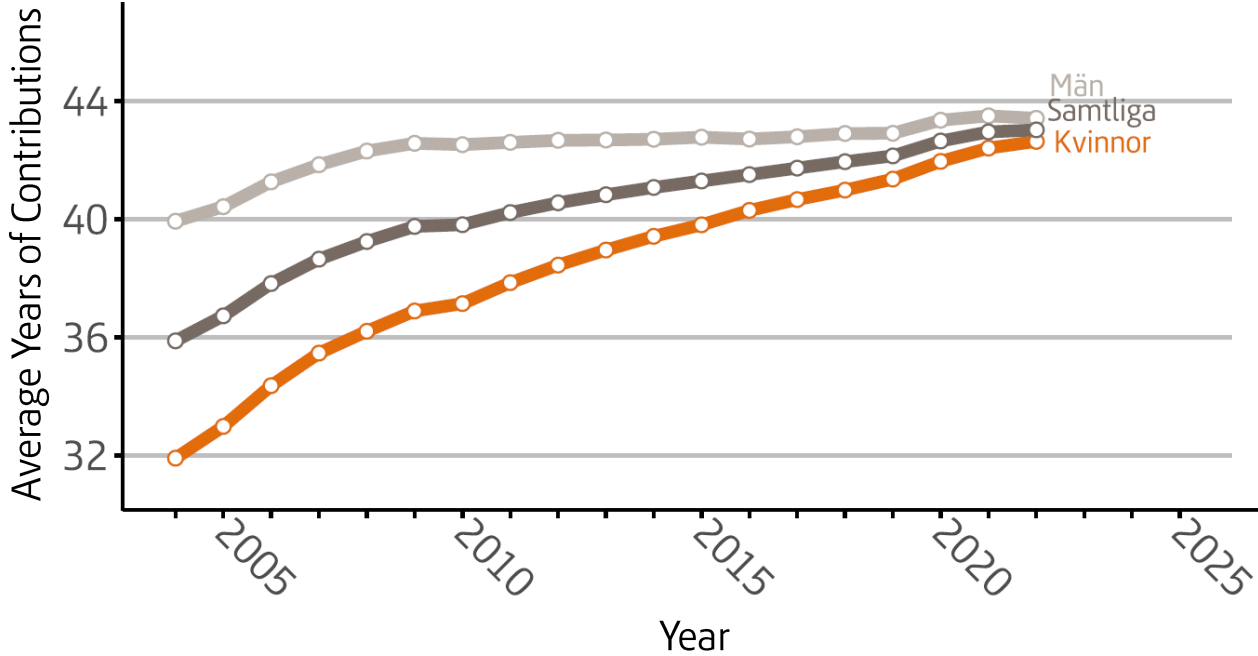
Development of Spread in Retirement Age from Birth Cohort Born in 1938

Share New Retirees per Age and Birth Cohort

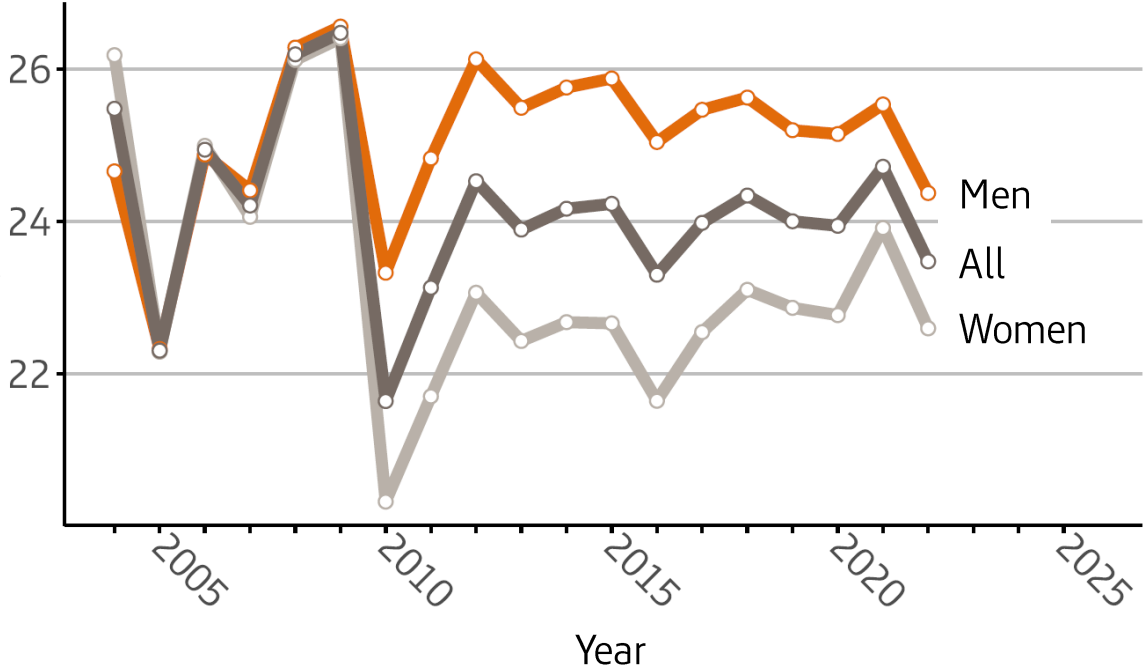


Average Years of Contributions for Persons Withdrawing Pension

Born in Sweden



Born in other Countries

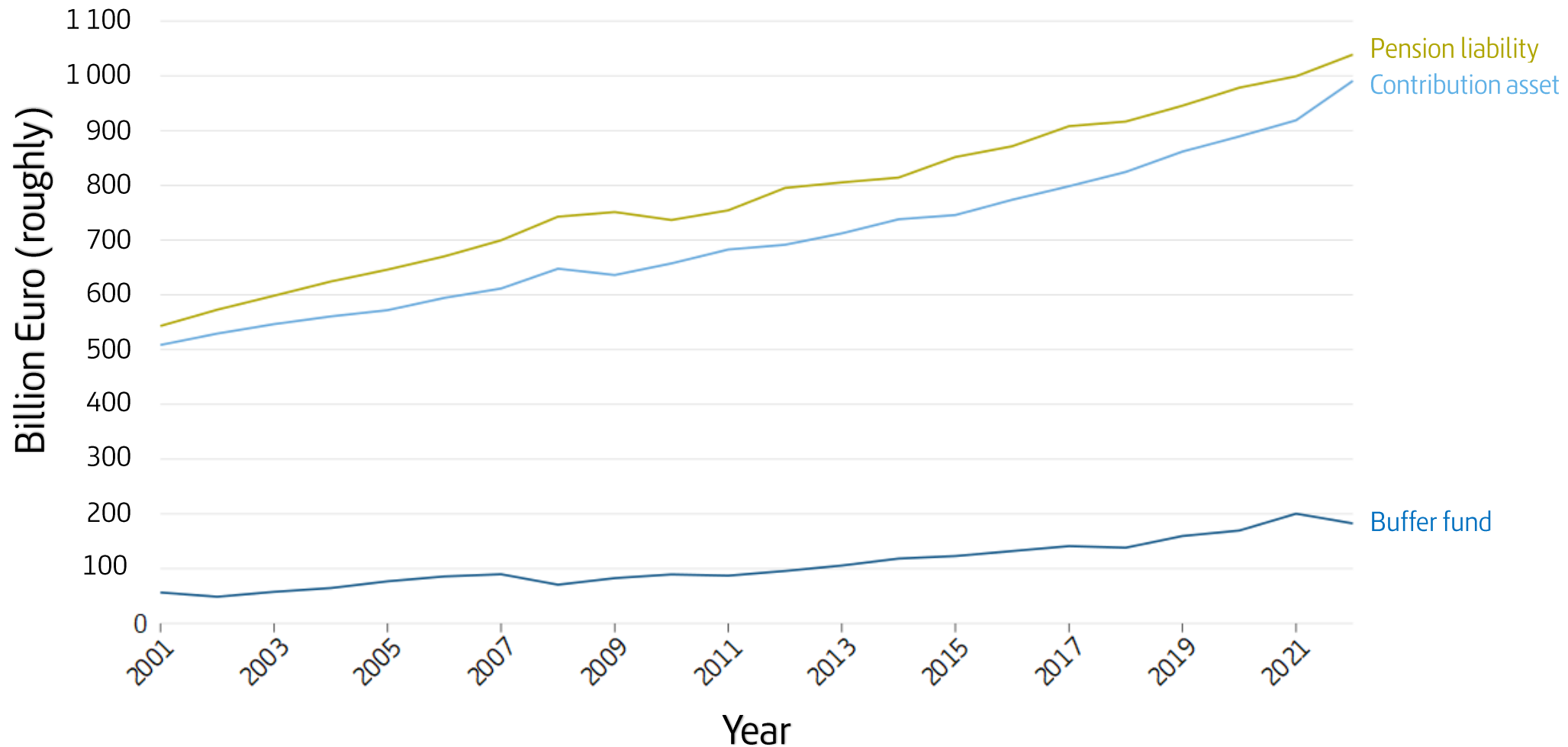


The main financial indicator of the NDC scheme is the balance ratio

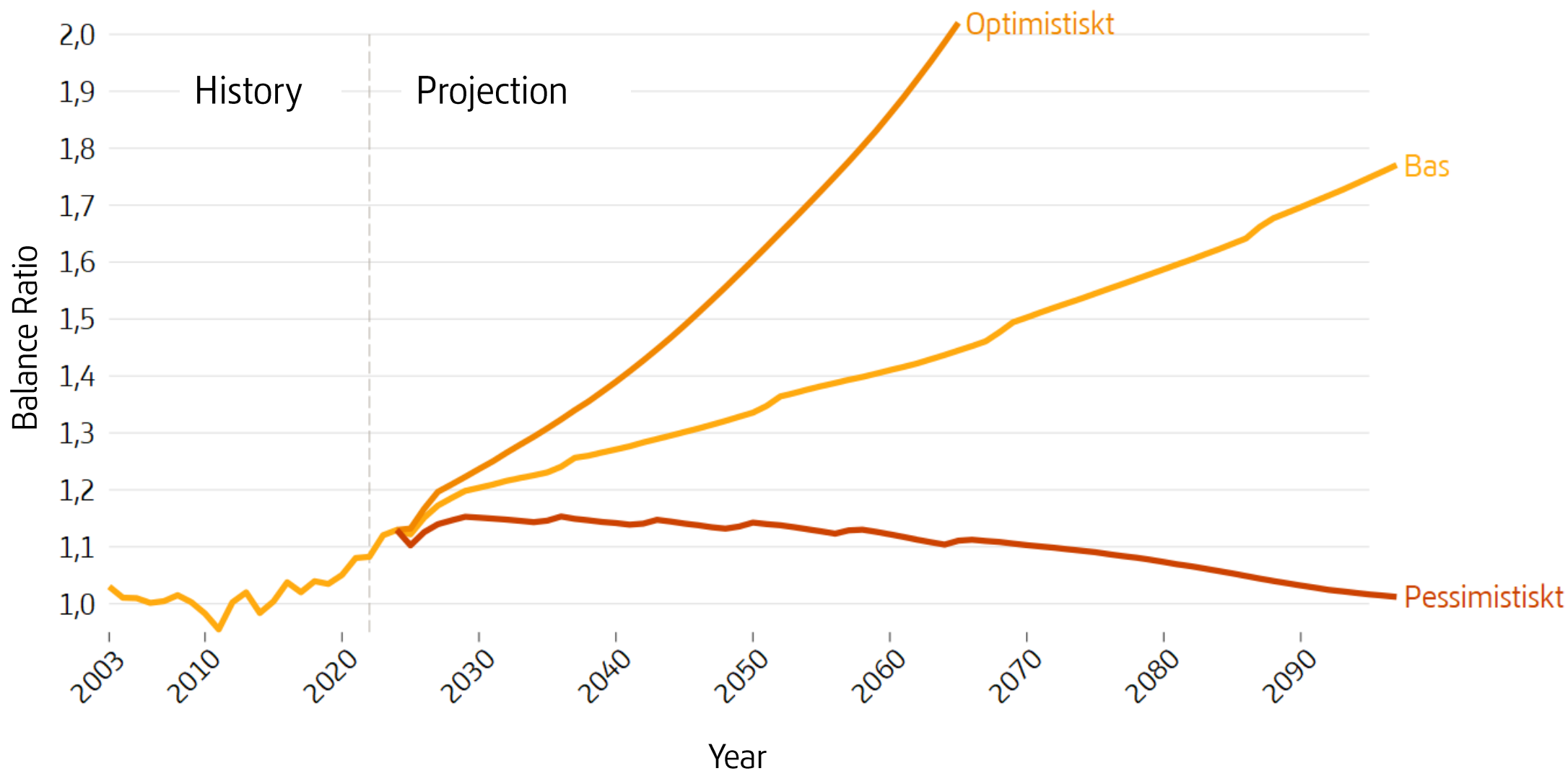
- The balance ratio is the ratio of [funded assets + "asset" value of contributions] over pension liability in the NDC scheme.
- Funded assets, contribution "asset" and pension liability are all calculated with rules set in legislation that uses only experienced, registered economic and demographic development, thus zero (explicit) assumptions as to future economic and demographic development, i.e. "backward looking"
- If ratio = 1,0000 "assets" and pension liability are of equal size.
- Balance ratio for 2024 (measured per 31 December 20023) is 1,1295, "assets" are 12,95 % larger than liability.

Year	Balance ratio
2018	1,0395
2019	1,0347
2020	1,0505
2021	1,0802
2022	1,0824
2023	1,1202
2024	1,1295

Development of "contribution asset", buffer fund and pension liability



The Pay-As-You-Go Plan's Balance Ratio , Three Scenarios



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Reforms from Political Agreement 2017

- The politically very sensitive question on “retirement age” was addressed by a government investigation in 2013. Legislation in 2022.

So far not very intense debate on passed legislation that increases “retirement age”.

- Rather intense debate and criticism of Premium Pension “fund structure” following several fraudulent funds had been identified (about 2015). This caused government to propose new legislation changing the rules for admitting funds to the Premium pension.

Implementation of new structure, procurement of funds, is on going

- Political agreement to raise public pensions.

Rapid Increases in “Public Retirement” Ages

	Before 2020	New age from year			Projected	
		2020	2023	2026	2033	2050
Earliest age to pick up NDC & Premium Pension	61	62	63	64	65	66
Age when Guaranteed Pension starts, “retirement age”	65	-	66	67	68	69
Age when employment security ends	67	68	69	70	71	72

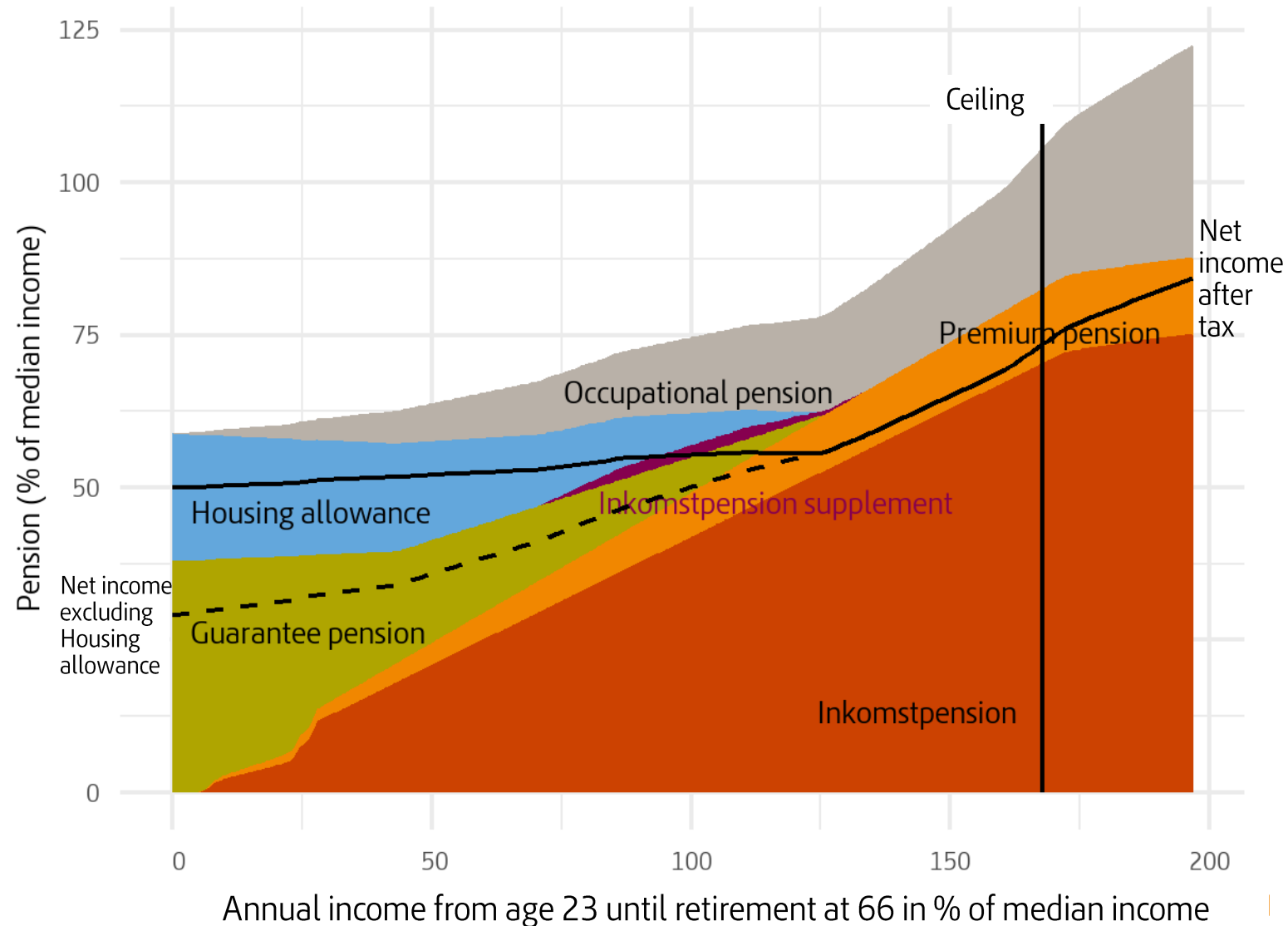
Current and Constant Policy Debate

- Pensions for normal and low income earners have by many been considered to low
- Introduction 2021 of an “Income Pension Supplement”, tax financed
- Real increases of the Guaranteed Pension 2020 and 2022
- Difference in public pensions for low and normal income earners, and even high income earners often low – does work pay in the form of higher public pensions?

Public Retirement Policy is Increasingly Contradictory

- New (tax financed) benefit, "inkomstpension supplement" introduced 2021
- Real increases in guaranteed pension 2020, 2022 and due to fall in real income 2023 and 2024
- Many (5) complementary tax financed benefits Guaranteed pension, Housing allowance, Special housing allowance, "Social assistance for elderly", Income pension supplement
- As many as 7 different benefits can be paid to one retiree from government
- Very high marginal tax in contributions as tax-financed benefits decreases as earnings-related benefits increases.

Total "pension", person born 1958, retirement at age 66



Some Effects of Income Pension Supplement and Increased Guaranteed Pension

	Prior to income pension supplement, 2020	After income pension supplement and increased Guaranteed Pensions and Housing
Share of retirees with some tax financed benefit	33 %	70 %
Cost for tax financed benefits in % of GDP	0,5 %	0,8 %
Share of retirees at risk of Poverty	13 %	7 %

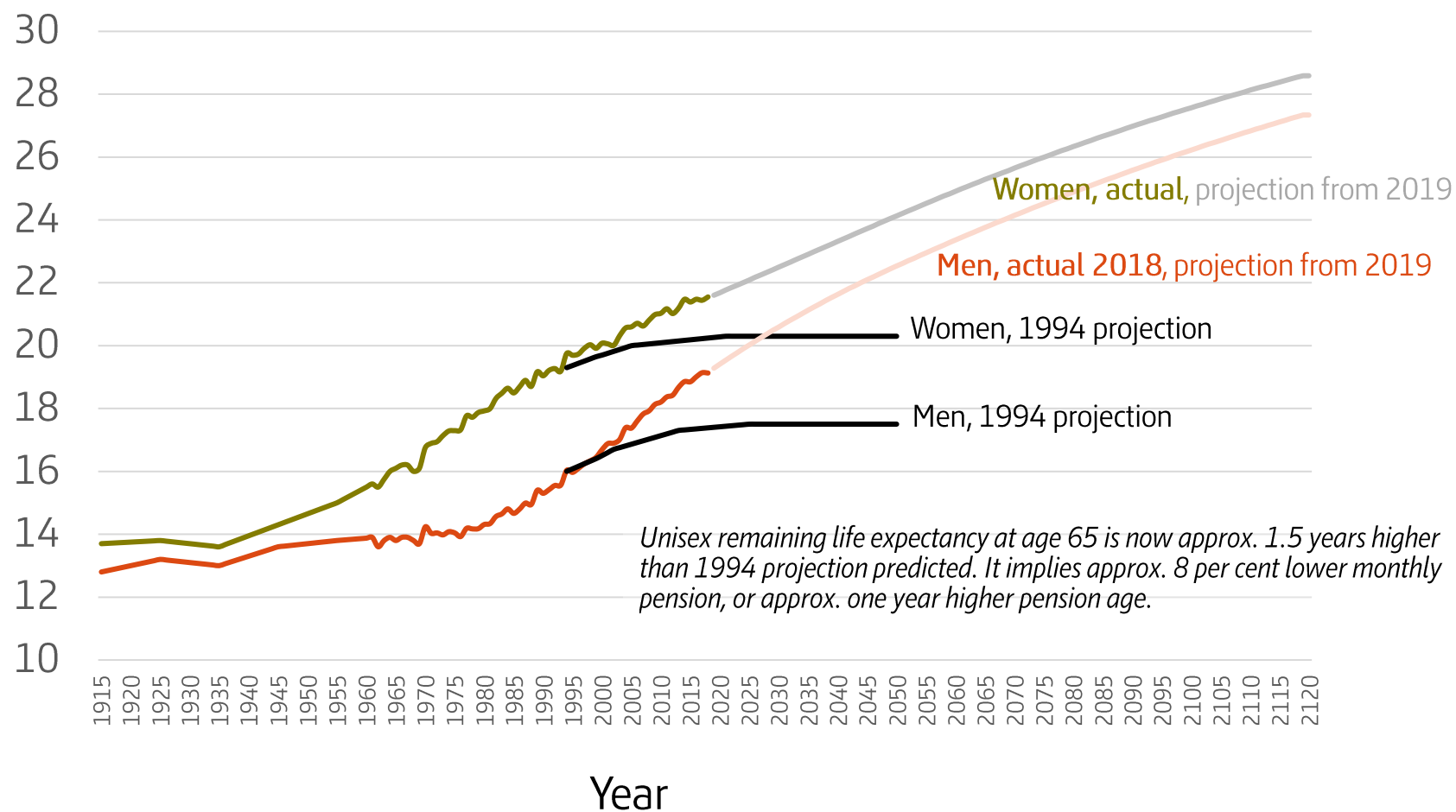


PENSIONS

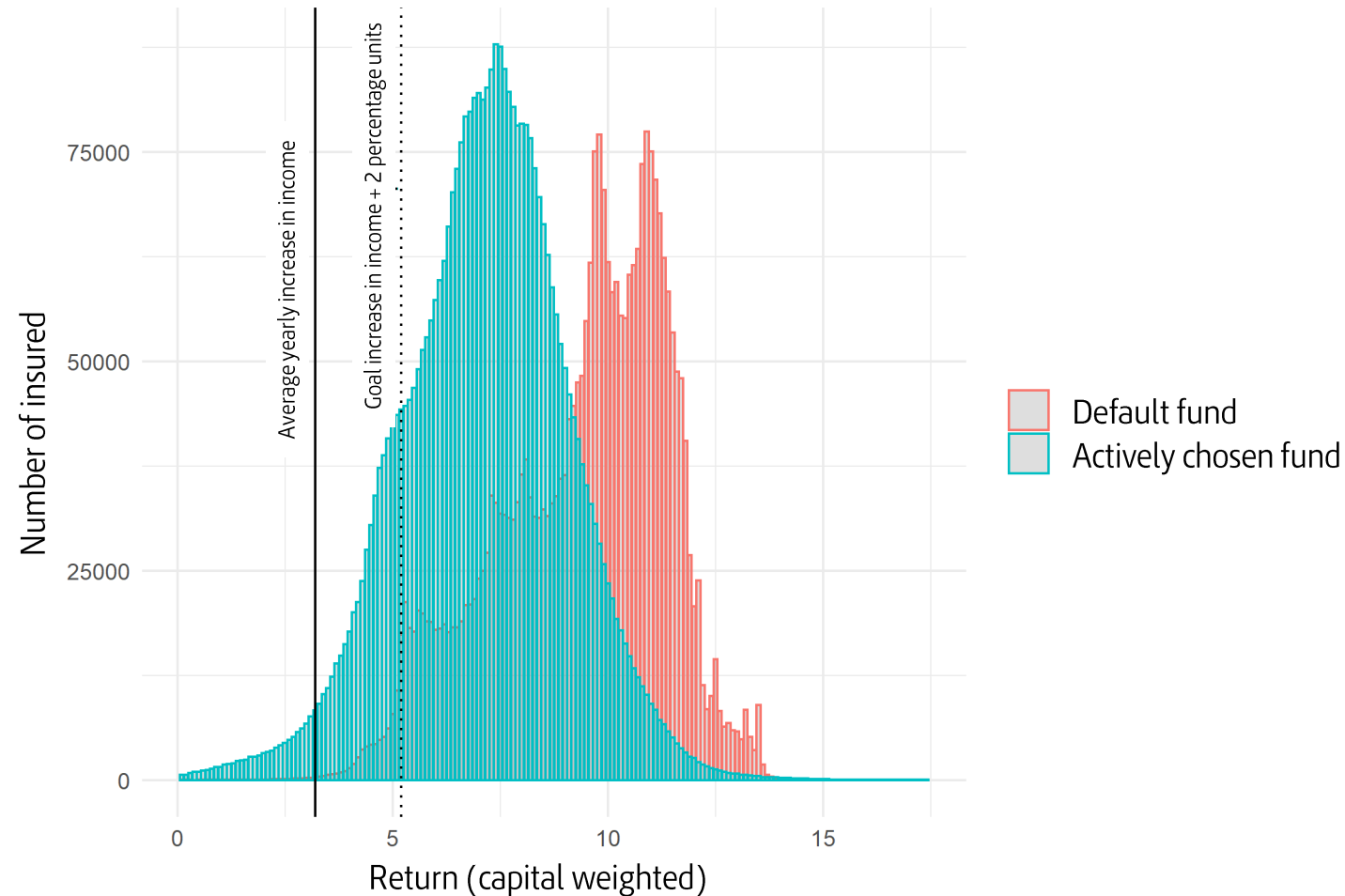
MYNDIGHETEN

Extra slides

Actual life-expectancy at age 65, 1994-projection, present projection, years.



Average yearly premium pension return from "start" for each insured



6,7 million insured. Selection of all insured with account value > 1000 SEK (aprox. 100 Euros) and that have participated > eight years.