

SWEDEN



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (SEK bn)	3 070.6
GDP per capita (USD)	49 662.5
Population (000s)	9 148.0
Labour force (000s)	4 838.0
Employment rate	93.9
Population over 65 (%)	17.4
Dependency ratio ¹	33.0

Data from 2007 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The earnings-related part of the enw pension system is based on notional accounts.
- There is a small mandatory contribution to defined-contribution pensions and an income-tested top-up.

Private pensions: occupational (mandatory)

- Benevolent societies (*understödsföreningar*) and pension foundations (*pensionsstiftelser*)
- Life insurance companies
- Occupational pension plan: book reserves

Private pensions: personal (mandatory)

- Premium Pension System (PPM)

Private pensions: personal (voluntary)

- Individual pension savings (IPS)

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007
Assets							
Total investments (National currency millions)	752,697	828,517	831,376	1,036,493	1,234,590	1,607,698	1,761,449
Total investments, as a % of GDP	32.36	34.23	33.05	39.49	45.14	55.44	57.37
Of which Assets overseas, as a % of Total investment:							
• Issued by entities located abroad	34.11	30.00	30.04	25.65	37.67	33.08	22.52
• Issued in foreign currencies	33.05	29.43	29.53	24.99	36.78	19.64	19.18
By financing vehicle (as a % of Total investments)							
• Pension funds	25.07	21.76	22.79	18.69	20.10	16.69	15.14
• Book reserves	5.72	5.40	5.40	4.58	4.05	3.29	3.17
• Pension insurance contracts	65.65	70.16	68.26	73.31	71.88	76.34	78.03
• Other financing vehicle	3.56	5.91	3.22	3.42	3.97	3.68	3.66
By pension plan type							
• Occupational assets	ND	ND	ND	ND	ND	ND	ND
• % of DB assets	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	ND
Structure of Assets (as a % of Total investments)							
Cash and Deposits	2.17	2.55	3.21	2.33	2.14	1.60	1.39
Fixed Income	43.92	55.87	47.41	52.98	32.75	24.52	29.39
Of which:							
• Bills and Bonds issued by the public and private sector	41.02	53.16	44.63	50.73	30.26	23.09	28.22
• Loans	2.90	2.70	2.78	2.25	2.49	1.42	1.18
Shares	35.63	25.02	29.73	27.21	28.70	25.45	20.99
Land and Buildings	3.88	4.12	3.91	3.15	2.74	2.34	1.99
Other Investments	14.39	12.44	15.74	14.32	33.68	46.09	46.23
Contributions and Benefits							
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹							
Total membership	1,075	1,623	1,697	1,760	1,819	1,899	1,986
• % of Active membership	ND	94.39	94.65	94.65	94.63	94.55	94.49
Of which: % of Deferred membership	ND	8.94	8.78	8.86	8.70	8.60	8.55
• % of Passive membership	ND	5.61	5.35	5.35	5.37	5.45	5.51
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans							
Total number of funds	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	1,370,592	1,443,316	1,520,480

Note: Asset overseas data refer only to pension insurance contracts. Structure of assets does not include book reserves. Membership data refer only to book reserves and bank managed funds. The number of plans is the number of plans managed by banks.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available
NA = data not applicable

Source: OECD, Global Pension Statistics

SWEDEN: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

A new state pension system was introduced in Sweden in 1999 and it applies fully to individuals born in 1954 and after. Older employees receive a mix of the old and the new state pension system. The description below relates to the new state pension system. The normal retirement age is 65. Early retirement can be taken as of age 61.

Pensions in Sweden are tied to two Social Security-defined amounts: the Income Base Amount (IBA) which increases each year in-line with average earnings and the Price Base Amount (PBA) which increases each year in-line with inflation. The IBA is SEK 48,000 and the PBA is SEK 41,000 in 2008.

Contributions to the state pension system are made on a slightly different earnings base than the earnings base that drives the benefits described below. Contributions are made as follows:

- The employer makes contributions of 10.21% of earnings for each individual employee. For purposes of the employer contribution, earnings are not capped.
- The employee makes contributions of 7% of his or her earnings up to 8.07 IBA.
- For individuals receiving unemployment benefits, the 10.21% of earnings contribution is made directly by the state. For qualifying individuals, the state pays the full employer plus employee contribution. State-paid contributions are financed out of general tax revenues.

The mismatch between the benefit amounts credited to accounts and the contribution amounts paid by employers and employees is, in effect, a tax re-distribution of wealth from high earners towards low earners.

Benefits from the public pension system consist of a *minimum pension*, an *earnings-related cash-balance type pension scheme* and a *mandatory defined contribution scheme called PPM*.

Minimum pension

The minimum pension is an income-tested top-up for people with low levels of benefit. The annual minimum pension is 2.13 PBA for single pensioners and 1.9 PBA for a married pensioner.

Earnings-related

The earnings-related state pension system is a combination of 2 schemes. Pensionable earnings in the state pension system include earnings up to 7.5 IBA:

Cash-balance

The cash-balance scheme uses notional accounts with 16% of pensionable earnings credited each year towards an individual's notional account. Contributions are deposited into the so-called First, Second, Third and Fourth AP funds. Each of the first four AP funds receives a fourth of the contributions and is responsible for a fourth of pension payments. The value of the notional accounts change from year to year, first based on the allocated contributions. Secondly, the notional accounts are indexed based on the change in average earnings in the Swedish economy. The average annual change in average Swedish earnings has been 2.9% since 1995. There is also a balancing mechanism in the cash balance notional account system. If liabilities either exceed or are less than assets, then the indexing of the notional account values are adjusted accordingly.

PPM

The mandatory defined contribution scheme (called “PPM”) credits 2.5% of pensionable earnings each year towards an individual’s self-directed defined contribution savings account. Individuals who make no active investment decision have their PPM contributions invested in the so-called Seventh AP fund. In 2006, individuals had 779 funds to choose from in the PPM system. The value of the individual PPM accounts change from year to year based on contributions and investment return of the individual account holder’s chosen investments.

OCCUPATIONAL VOLUNTARY

- Blue-Collar Workers

Overview

The occupational pension system in Sweden is overwhelmingly driven by collective agreements, and is effectively mandatory for most employers. Pension benefits for blue-collar workers are typically defined contribution in nature.

Coverage

The occupational pension system covers over 90% of the work force.

Typical Plan Design

The SAF-LO occupational pension plan – established by a collective bargaining agreement between the Swedish Employers’ Confederation (SAF) and the Swedish Trade Unions’ Confederation (LO) – is defined contribution in nature. The terms of the plan were improved in 2007, primarily in response to perceived unfairness in the terms of the pension provisions for blue-collar and white-collar workers. Employer contributions to members’ accounts as a percentage of their earnings will increase incrementally until 2012, as shown in the table below. Contributions are different whether employees earn under or over 7.5 income base amount (IBA).

Employer contributions to members' accounts, 2007-2012

As a percentage of members' earnings

Year	Earnings under Earnings over	
	7.5 IBA	7.5 IBA
2007	3.5%	3.5%
2008	3.9%	6.0%
2009	4.0%	12.0%
2010	4.1%	18.0%
2011	4.3%	24.0%
2012	4.5%	30.0%

Contributions towards employees’ pensions commence at the age of 25 – raised in 2008 from the previous, younger, eligibility age of 21.

The normal retirement in the SAF-LO plan is 65, though early retirement is possible from age 55.

- White-Collar Workers

Overview

The main collectively bargained pension plan for white-collar employees, ITP, is defined benefit in nature for employees born before 1979, and defined contribution in nature for those born in 1979 and after.

Typical Plan Design

The ITP occupational pension plan was extensively upgraded in 2007 after a decade of negotiations between the employers and white-collar unions. It comprises two main parts.

Part I, introduced in 2007, is defined contribution in nature and covers all employees born in or after 1979. Employer contributions are 4.5% for earnings under 7.5 IBA (income base amount), and 30% for earnings over 7.5 IBA. Members are eligible to contribute as of age 25.

Part II has been in effect for years and covers all employees born before 1979. It is mainly defined benefit in nature and based on final earnings, although it does contain some defined contribution components. On reaching 65, a member with 30 years of service receives benefits as a life annuity, although the option of withdrawing a pension entitlement over a period as short as five years was introduced in 2007. A life annuity benefit may be broken down as follows.

Life annuity benefit by level of earnings

As a percentage of members' earnings

Years	Final earnings under 7.5 IBA	Final earnings between 7.5 and 20 IBA	Final earnings between 20 and 30 IBA
Annual pension benefit available at 65 after 30 years of service	10% of final earnings	65% of final earnings	32.5% of final earnings

ITP Part II also entitles members to a defined contribution allocation of 2% of earnings up to 30 IBA per annum.

The usual retirement age in ITP is 65, although early retirement is possible from the age of 55.

ITP's predominantly defined-benefit Part II can be financed in one of three ways:

- through life insurance provided by the insurance company Alecta
- a book-reserved provision on the sponsoring employer's balance sheet
- through a pension fund.

Employers choosing to finance Part II of the ITP plan via book reserves or a pension fund must purchase credit insurance as protection in the event of bankruptcy. Approximately 1 500 employers finance their ITP Part II plans via book reserves or pension funds.

PERSONAL MANDATORY

Contributions

PPM annually credits 2.5% of pensionable earnings to an individual's self-directed defined-contribution personal savings account.

Benefits

PPM benefits are paid out in the form of life annuities. The normal retirement age is 65, but early retirement can be taken from age 61.

Taxation

EET treatment applies.

PERSONAL VOLUNTARY

Employee contributions to employer-sponsored occupational pension plans are not allowed in Sweden. However, some employers offer their employees salary deferral plans.

MARKET INFORMATION

Occupational voluntary

The SAF-LO plan's defined-contribution accounts can be invested with some 25 different providers. There are approximately 1.8 million members.

The main collectively bargained pension plan for white-collar workers has approximately 700 000 members. ITP Part I defined contribution accounts can be invested with eight different providers.

Total occupational voluntary assets were worth SEK 1 120.8 billion at the end of 2007 (USD 165.9 billion).

Personal mandatory

Savers are free to choose mutual funds to manage their PPM assets. Those who make no active investment decision have their PPM contributions invested in the Seventh AP Fund. In 2006, individuals had 779 funds to choose from in the PPM system. At the end of 2007, total assets in the PPM system reached SEK 309.6 billion (USD 45.8 billion).

Personal voluntary

Individual pension saving, known by its acronym IPS, counted 1.5 million accounts in banks at the end of 2007. They managed assets up to SEK 64.4 billion (USD 9.5 billion).

REFERENCE INFORMATION

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Social Insurance Agency: responsible for the supervision of public pensions;

www.forsakringskassan.se.

The Swedish Financial Supervisory Authority: Sweden's integrated financial regulator, it is responsible for regulating insurance companies;

www.fi.se.

SELECTED KEY STATISTICAL REFERENCE

Statistics Sweden,

http://www.scb.se/default_2154.asp.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.



