

# IOPS COUNTRY PROFILE: SWEDEN



## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (SEK bn)	4,833.7
GDP per capita (USD)	53,202.7
Population (000s)	10,230.2
Labour force (000s)	5075.0
Employment rate	94.3
Population over 65 (%)	19.9
Dependency ratio <sup>1</sup>	40.1

Data from 2018.

1. Ratio of over 65-year-olds / labour force.

Source: Various sources.

## SWEDEN: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- The earnings-related part of the pension system is based on notional defined contribution accounts
- An individual mandatory defined contribution fund saving is added (premium pension)
- For those who have earned only a low pension or no pension at all there is a tax funded guarantee pension

#### Occupational pensions

- All based on labour market agreements:
  - Life insurance companies
  - Occupational pension funds
  - Pension foundations
  - Occupational pension plan: book reserves

#### Private pensions

- Tax incentives have ceased to exist in 2016 except for labour force with no right to occupational pensions and for self-employed

Source: OECD Global Pension Statistic

## 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 insured persons receive a mix of the old and the new state pension system. The description below relates to the new state pension system. There is no fixed pension age in Sweden. Pension can be drawn as of age 61 (new political decision of age 62 from the year 2020). The average retirement age is 64,6 (2018).

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 64 400 and the PBA is SEK 46 500 in 2019.

Contributions to the state pension system 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 income base amount (IBA).
- For individuals receiving benefits from social and unemployment insurance schemes (e.g. sickness benefits, parental benefits and unemployment benefits), the state pays the full employer plus employee contribution. State-paid contributions are financed out of general tax revenues.

Benefits from the public pension system consist of a *guarantee pension*, and two earnings-related defined contribution schemes called *income pension* (distribution system) and *premium pension* (fund-based system).

#### *Guarantee pension*

The guarantee pension forms the basis of the tax-funded basic cover for old-age pensioners. Those who have not earned any national income-based pension at all receive a full guarantee pension. To those who receive a low income-based pension, the guarantee pension is a top-up. The annual full guarantee 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 two schemes. Pensionable earnings in the state pension system include earnings up to 7.5 income base amount (IBA):

#### *Income pension*

The income pension scheme uses notional accounts with 16% of pensionable earnings credited each year towards an individual's notional account. The value of the notional accounts change from year to year, firstly based on the credited 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 2.5% since 2014. There is also a balancing mechanism in the notional account system. If the liabilities in the pension system exceed the assets, then the indexing of the notional account values and the pensions payments are adjusted accordingly.

Contributions to the income pension system are deposited into the AP Funds (the First, Second, Third and Fourth AP fund) and finance contemporary pension payments.

### *Premium pension*

2.5% of the pensionable earnings each year is allocated towards the premium pension account of the insured individual. The individuals themselves have the option of choosing funds for their premium pension allocation. In July 2019, the individuals had around 500 funds to choose from in the premium pension system. The assets of those not wishing to make a personal choice are invested in the AP7 Såfa fund<sup>1</sup>. The value of the individual premium pension accounts change from year to year based on contributions and market value of the individual account holder's chosen funds.

## **OCCUPATIONAL VOLUNTARY**

### *Coverage*

The occupational pension system covers over 90% of the work force. There are several different pension plans but they are similar in nature and two types are presented below.

- **Blue-Collar Workers**

### *Overview*

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

### *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. Contributions are different whether employees earn under or over 7.5 income base amount (IBA).

Employer contributions towards employees' pensions commence at the age of 25 and is 4.5 % of member's annual earnings under 7.5 IBA and is 30.0 % above that level.

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

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<sup>1</sup> State's Age Cohort/Management Options" within the Seventh AP Fund

- **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, is defined contribution in nature and covers all employees born in or after 1979. Employer contributions are 4.5% for annual 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 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 there is an option of withdrawing a pension entitlement over a period as short as five years. 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 an occupational pension fund.

Employers choosing to finance Part II of the ITP plan via book reserves must either purchase credit insurance as protection in the event of bankruptcy or transfer assets to a pension foundation. Approximately 1 200 employers finance their ITP Part II plans via book reserves combined with credit insurance.

## PERSONAL MANDATORY

### *Contributions*

2.5% of the pensionable earnings each year is allocated towards the premium pension account of the insured individual.

### *Benefits*

Premium pension benefits are paid out in the form of life annuities. There is no fixed pension age in Sweden. Pension can be drawn as of age 61 (new political decision of age 62 from the year 2020).

### *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 14 different providers. There are approximately 2.6 million members (including paid-up policies).

The main collectively bargained pension plan for white-collar workers has approximately 2.4 million members (including paid-up policies). ITP Part I defined contribution accounts can currently be invested with 10 different providers.

Total occupational voluntary assets (member's values) were worth SEK 2 923.5 billion at the end of 2018 (USD 329.2 billion).

### *Personal mandatory*

Savers are free to choose mutual funds to manage their premium pension assets. Those who make no active investment decision have their premium pension contributions invested in the AP7 S fa fund. In July 2019, individuals had approximately 500 funds to choose from in the premium pension system. At the end of 2018, total assets in the PPM system reached SEK 1,104.5 billion (USD 124.3 billion).

### *Personal voluntary*

There are both individual pension saving accounts in banks, known by its acronym IPS as well as private pensions in life insurance companies. Because tax incentives has ceased to exist in 2016 except for special cases, new savings are reduced to a minimum. In IPS, assets are 96.6 billion SEK (USD 10.9 billion) at the end of 2018, whereas assets in private pensions are 373 billion SEK (USD 42 billion).

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## REFERENCE INFORMATION

### KEY REGULATORY, SUPERVISORY AND ADMINISTRATIVE AUTHORITIES

The Swedish Pensions Agency: responsible for the administration of public pensions:

[www.pensionsmyndigheten.se](http://www.pensionsmyndigheten.se)

The Swedish Financial Supervisory Authority: Sweden's integrated financial regulator is responsible for regulating insurance companies and occupational pension funds:

[www.fi.se](http://www.fi.se)

### SELECTED KEY STATISTICAL REFERENCE

Statistics Sweden,

<https://www.scb.se/en/finding-statistics/>

OECD, Global Pension Statistics project,

<http://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm>

## PENSION FUNDS DATA OVERVIEW

	2014	2015	2016	2017	2018
<b>Assets</b>					
<i>Total investments (National currency millions) <sup>2</sup></i>	3 503 880	3 634 151	3 871 621	4 149 192	4 184 157
<i>Total investments, as a % of GDP</i>	88,02%	85,55%	87,68%	89,79%	86,56%
<i>Of which Assets overseas, as a % of Total investment:</i>					
• <i>Issued by entities located abroad</i>	ND	ND	ND	ND	ND
• <i>Issued in foreign currencies</i>	ND	ND	ND	ND	ND
<b>By financing vehicle (as a % of Total investments)</b>					
• <i>Pension funds</i>	4,89%	4,59%	4,78%	4,77%	4,83%
• <i>Book reserves</i>	8,91%	9,66%	9,88%	9,58%	9,98%
• <i>Pension insurance contracts</i>	86,20%	85,75%	85,34%	85,65%	85,19%
• <i>Other financing vehicle <sup>1</sup></i>	ND	ND	ND	ND	ND
<b>By pension plan type</b>					
• <i>Occupational assets</i>	3 037 773	3 173 090	3 418 879	3 699 725	3 757 813
• <i>% of DB assets</i>	34,95%	33,50%	33,42%	31,80%	32,24%
• <i>% of DC (protected and unprotected) assets</i>	65,05%	66,50%	66,58%	68,20%	67,76%
• <i>Personal assets <sup>2</sup></i>	466 107	461 061	452 742	449 466	426 344
<b>Structure of Assets (as a % of Total investments) <sup>3</sup></b>					
<i>Cash and Deposits</i>	2,48%	2,51%	2,31%	2,24%	2,52%
<i>Fixed Income</i>	46,65%	45,30%	44,36%	43,01%	44,81%
<i>Of which:</i>					
• <i>Bills and Bonds issued by the public and private sector</i>	40,64%	39,85%	38,65%	37,43%	38,91%
• <i>Loans</i>	2,92%	2,63%	2,87%	2,59%	2,87%
<i>Shares</i>	43,35%	44,63%	44,81%	46,50%	43,59%
<i>Land and Buildings</i>	4,24%	5,03%	5,43%	5,55%	6,14%
<i>Other Investments</i>	3,28%	2,54%	3,08%	2,69%	2,94%
<b>Contributions and Benefits <sup>4</sup></b>					
<i>Total Contributions, as a % of GDP</i>	2,71%	2,64%	2,62%	2,89%	3,08%
• <i>Employer Contributions, as a % of Total contributions</i>	100%	100%	100%	100%	100%
• <i>Employee Contributions, as a % of Total contributions</i>	0,00%	0,00%	0,00%	0,00%	0,00%
<i>Total Benefits, as a % of GDP</i>	ND	ND	ND	ND	ND
• <i>% of benefits paid as a Lump sum <sup>5</sup></i>	0%	0%	0%	0%	0%
• <i>% of benefits paid as a Pension</i>	100%	100%	100%	100%	100%
<b>Membership (in thousands of persons) <sup>6</sup></b>					
<i>Total membership</i>	ND	ND	ND	ND	ND
• <i>% of Active membership</i>	ND	ND	ND	ND	ND
<i>Of which: % of Deferred membership</i>	ND	ND	ND	ND	ND
• <i>% of Passive membership</i>	ND	ND	ND	ND	ND
<i>Other beneficiaries</i>	ND	ND	ND	ND	ND

<b>Number of Pension Funds/Plans</b>					
<i>Total number of funds</i>	11	11	11	11	11
<i>Total number of plans</i>	ND	ND	ND	ND	ND

Note:

- 1) Contains unfunded DB pensions for state and regional employees
- 2) Concerns private pensions only (not IPS)
- 3) Unit linked enterprises are excluded
- 4) Contributions into life insurance companies only
- 5) Lumps sums only in cases of small values as surrender values
- 6) SWE statistic contains only number of policies and is therefore not noted here

ND = data not available  
NA = data not applicable

Source: Various