SWEDISH
PENSIONS AGENCY

Summary on the Swedish Pension System

Bo Könberg, Chairman of the Board

Swedish Pensions Agency

www.pensionsmyndigheten.se

Moscow, 13 September 2012

Pension systems 1881-1980

- Bismarck, 1881

  – Defined Benefit

- Beveridge, 1942

  – Flat Rate Benefit

- Singapore / Chile, 1955 and 1980

  – Financial Defined Contribution (FDC)

Public pension system before reform (ATP)

- Introduced 1960

- PAYG-system

- Pension points earned during age 16-65

- Benefit calculated out of the 15 best years

- 30 years for full benefit

- Retirement age 67 (65 from 1976)
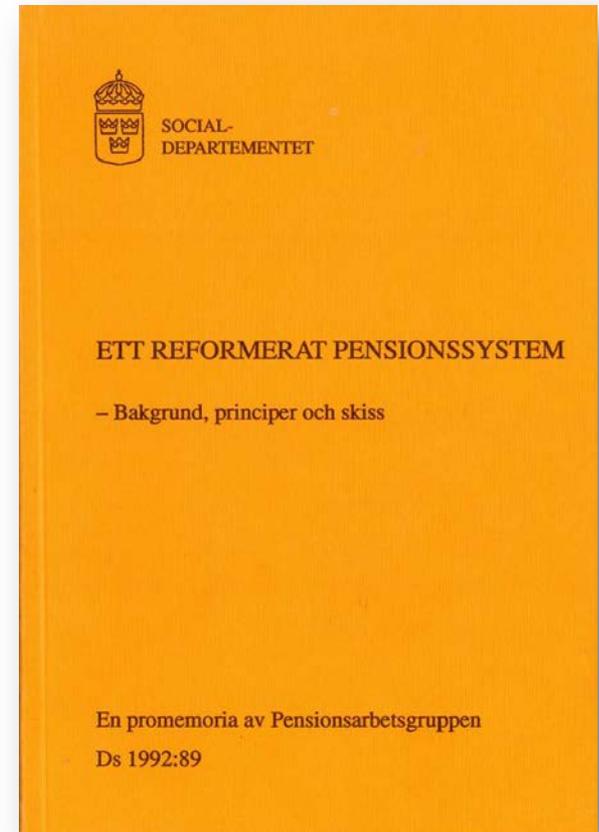
- Pension credits and benefits linked to CPI

The Pension Reform

*A Reformed Pension System
– Background, Principles and Sketch*

Swedish model

Sweden, 1992
Nonfinacial Defined Contribution(NDC)

Prior to that "generally thought ... was an impossibility"

The pension reform

- By 1991 pension reform had become a top priority and a parliamentary group was appointed

- Group quickly reached broad agreement on the problems with the old system. Pension reform went on for most of the 1990's

- 1992 Outline of the reform
- 1994 Reform proposal passed "in principle"
- 1998 Parliament passed new pension legislation

Main principles of the Swedish model (NDC)

- Life income principle

- Follows the changes in life expectancy

- Follows the changes in national income/wages

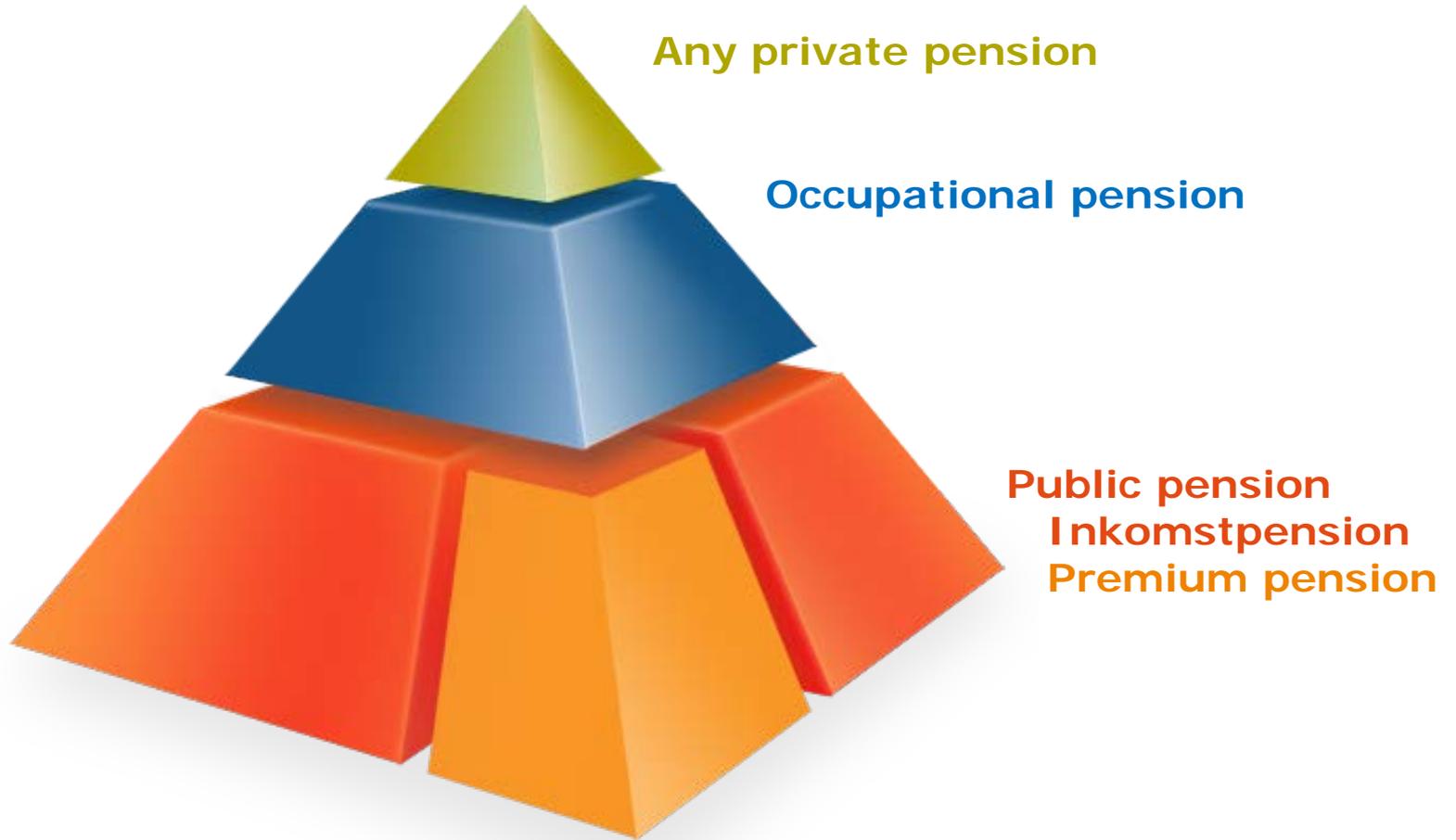# Main features of the public pension system

- Compulsory system

- Lifetime earnings

- Contribution = 18.5 %

  - 16 % to NDC (pay-as-you-go)

  - 2.5 % to FDC (funded)

- Rate of return

  – NDC: wage index

  – FDC: financial market

- Income ceiling = 7.5 base amounts (= SEK 409,500 for 2012)

- No age limits

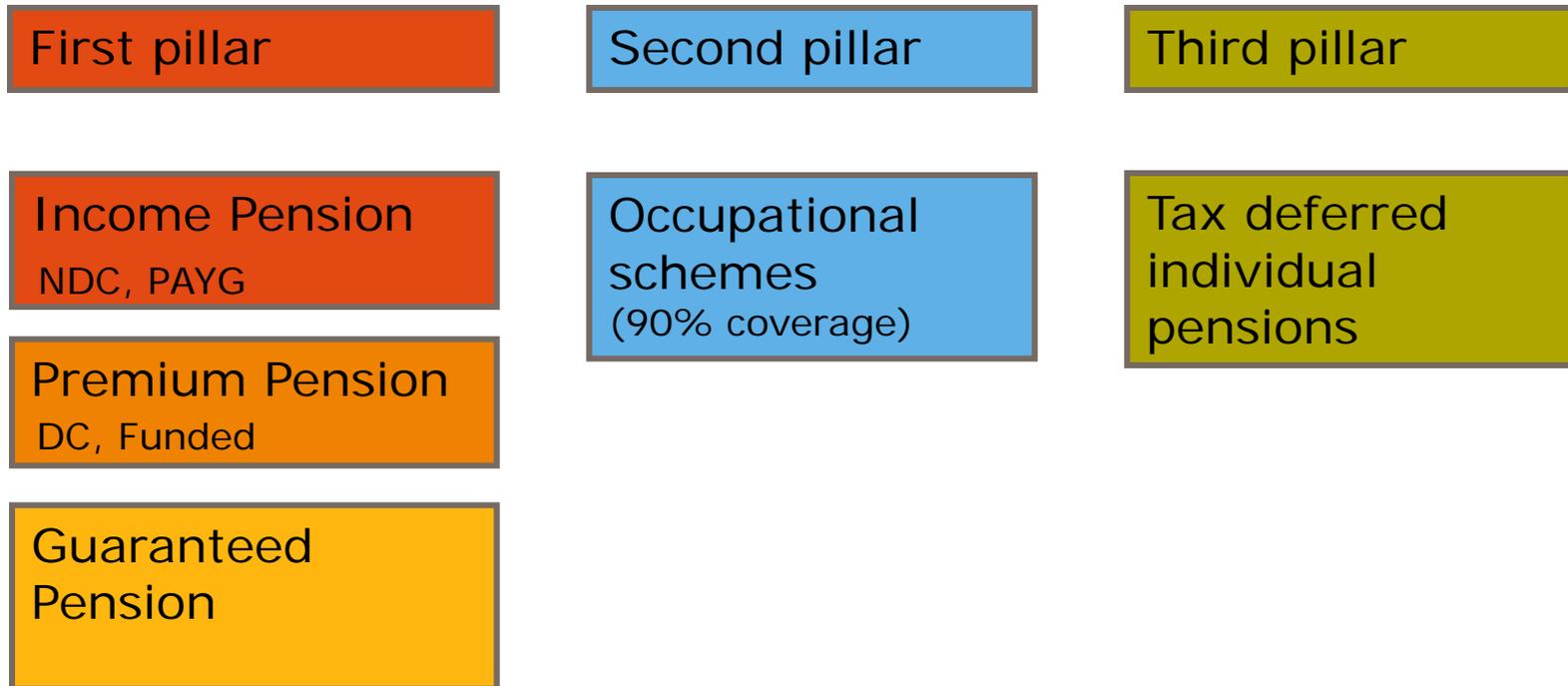# Main features of the public pension system

- Benefits based on life expectancy at retirement

- NDC – automatic balancing

- Transitional rules

- Guarantee pension
  - basic protection (general tax financed)

Main features of the public pension system

- Compulsory system with three components:
  - Notional defined contribution plan
  - Premium Pension
  - Guarantee benefits

- Benefits are determined by lifetime contributions up to a ceiling

- Benefits based on life expectancy at retirement

- Automatic balancing to maintain financial stability

- Transitional rules

Any private pension

Occupational pension

Public pension
Inkomstpension
Premium pension

SWEDISH
PENSIONS AGENCY

The Swedish retirement income system

| First pillar | Second pillar | Third pillar |

Income Pension
NDC, PAYG

Occupational schemes
(90% coverage)

Tax deferred individual pensions

Premium Pension
DC, Funded

Guaranteed Pension

SWEDISH
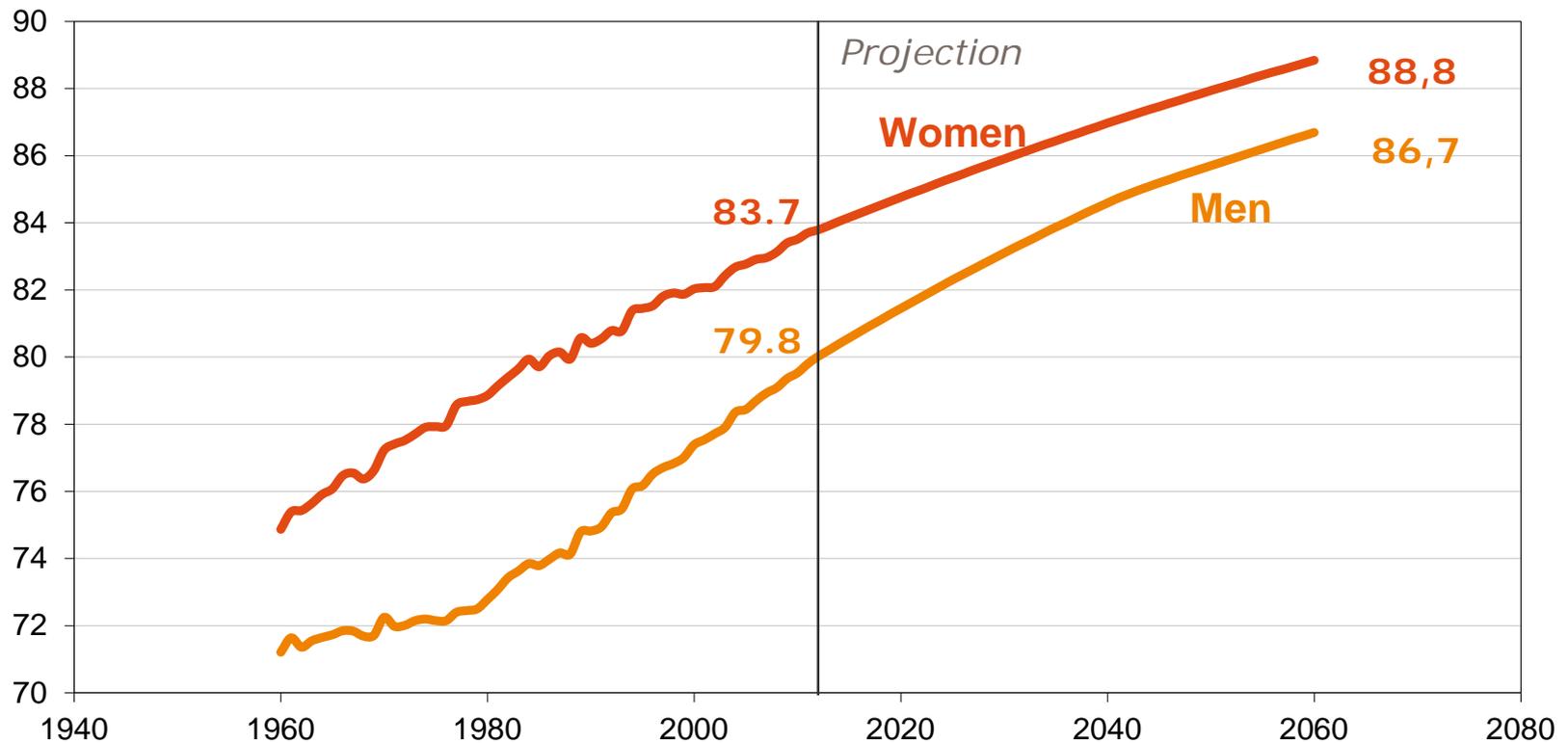PENSIONS AGENCY

Retirement

- From the age of 61

- NDC-pension, FDC-pension or both

- 25%, 50%, 75% or 100% of benefit

- Guarantee pension from 65

- Right to keep your employment until 67
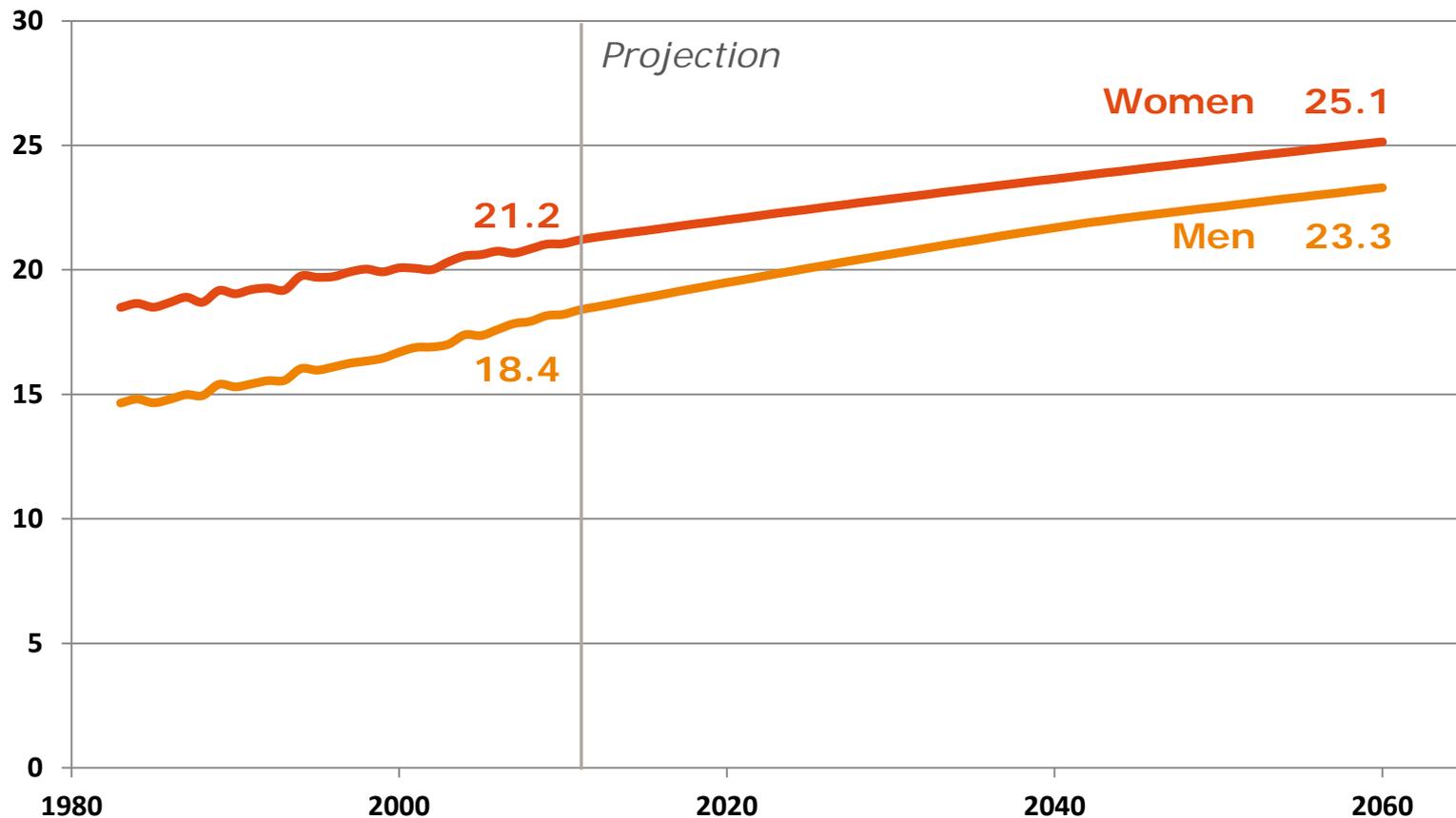
SWEDISH PENSIONS AGENCY

Guarantee pension

Basic security for those with low or no income-related pension
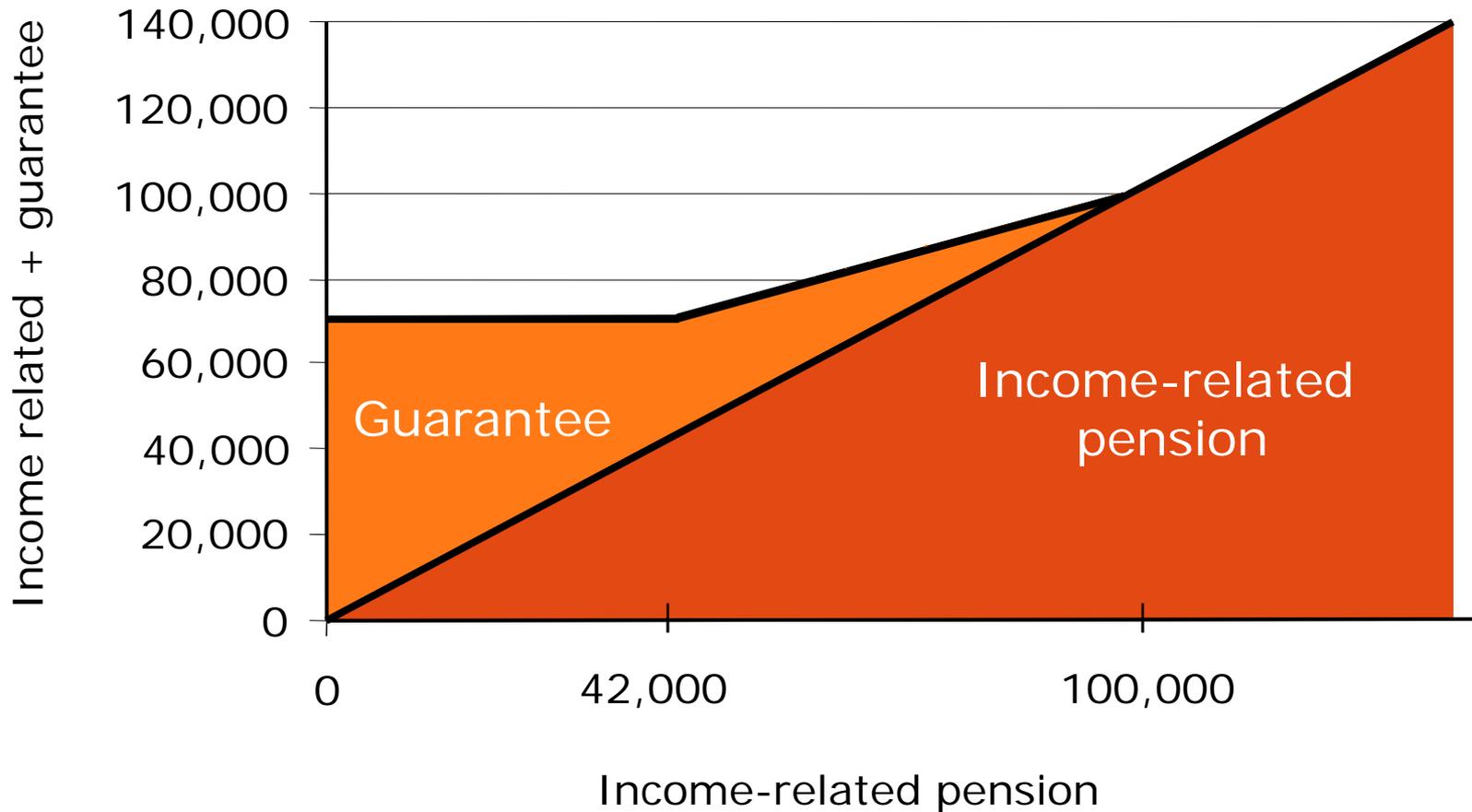
Life expectancy at birth, 1960-2060

Life expectancy, 1980-2060, from 65 years old

Life expectancy and retirement age

Birth cohort	...turns 65 in	Life expectancy at 65	Retirement age required	Time spent retired *	...compared to birth cohort 1930
1930	*1995*	*82 yr 5 mo*	*65 yr*	*17 yr 5 m*	*0*
1950	2015	84 yr 9 mo	66 yr 4 mo	18 yr 8 mo	+1 yr 3 mo
1960	2025	85 yr 7 mo	67 yr 6 mo	18 yr 7 mo	+1 yr 2 mo
1970	2035	86 yr 3 mo	68 yr	18 yr 9 mo	+1 yr 4 mo
1980	2045	86 yr 10mo	68 yr 5 mo	18 yr 11 mo	+1 yr 6 mo
1990	2055	87 yr 3 mo	68 yr 8 mo	19 yr 1 mo	+1 yr 8 mo

* Time spent retired is calculated as life expectancy at the required retirement age.

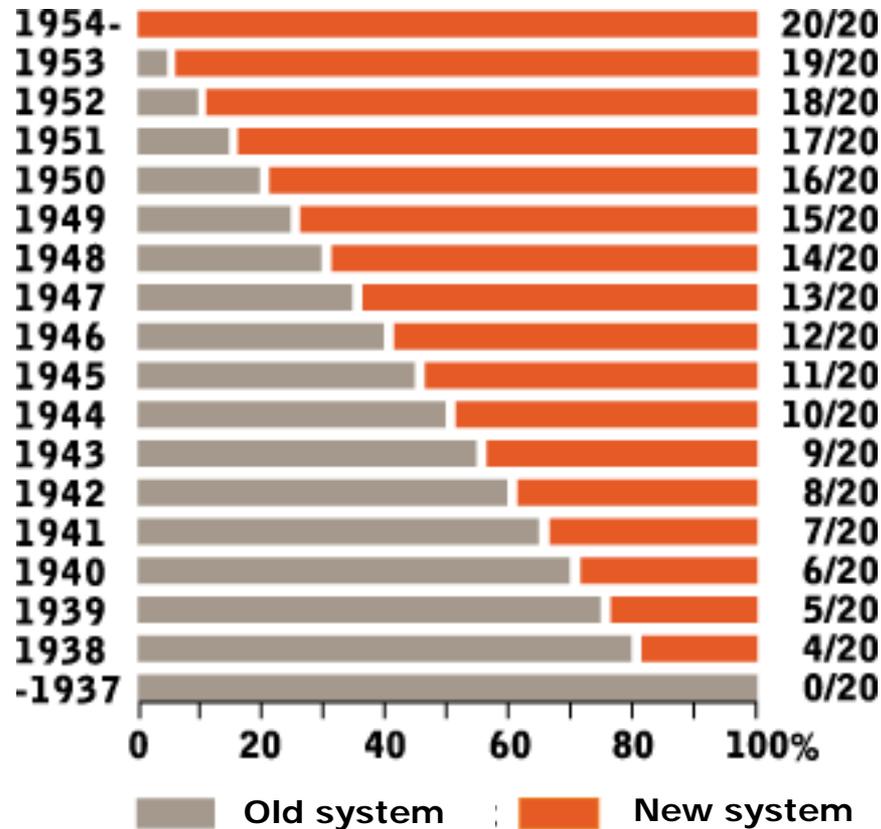# Population 2011 and in 2086
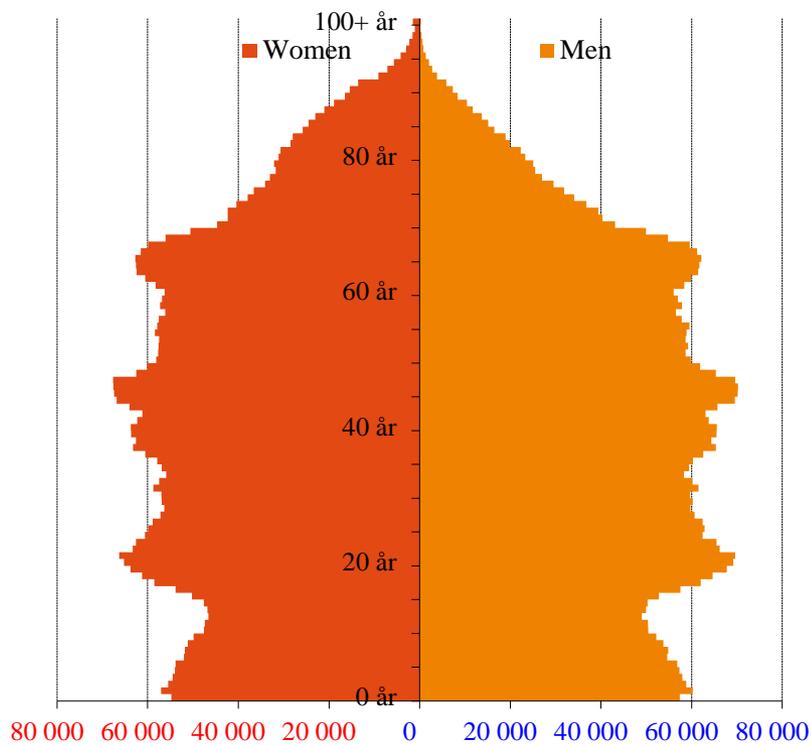
2011
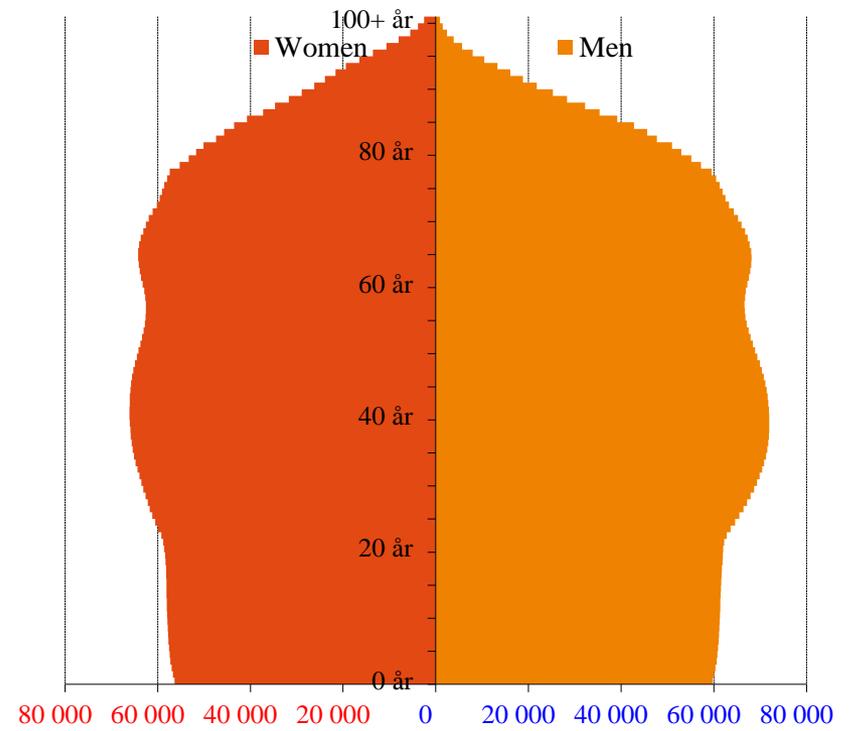
2086

Transitional rules

- Recalculation of pension rights from 1960

- Guarantee of what is earned in the old pension system until 1994

- Those born 1938-1953 are phased in

Transition for those born 1938-1953

Pension Information

Information Problems

- Complex products

- Long time horizon

- Low interest

- Financial illiteracy

- Many providers – many messages

- Difficult to get the whole picture

The Orange Envelope

- Decision – last year's contribution

- Total savings

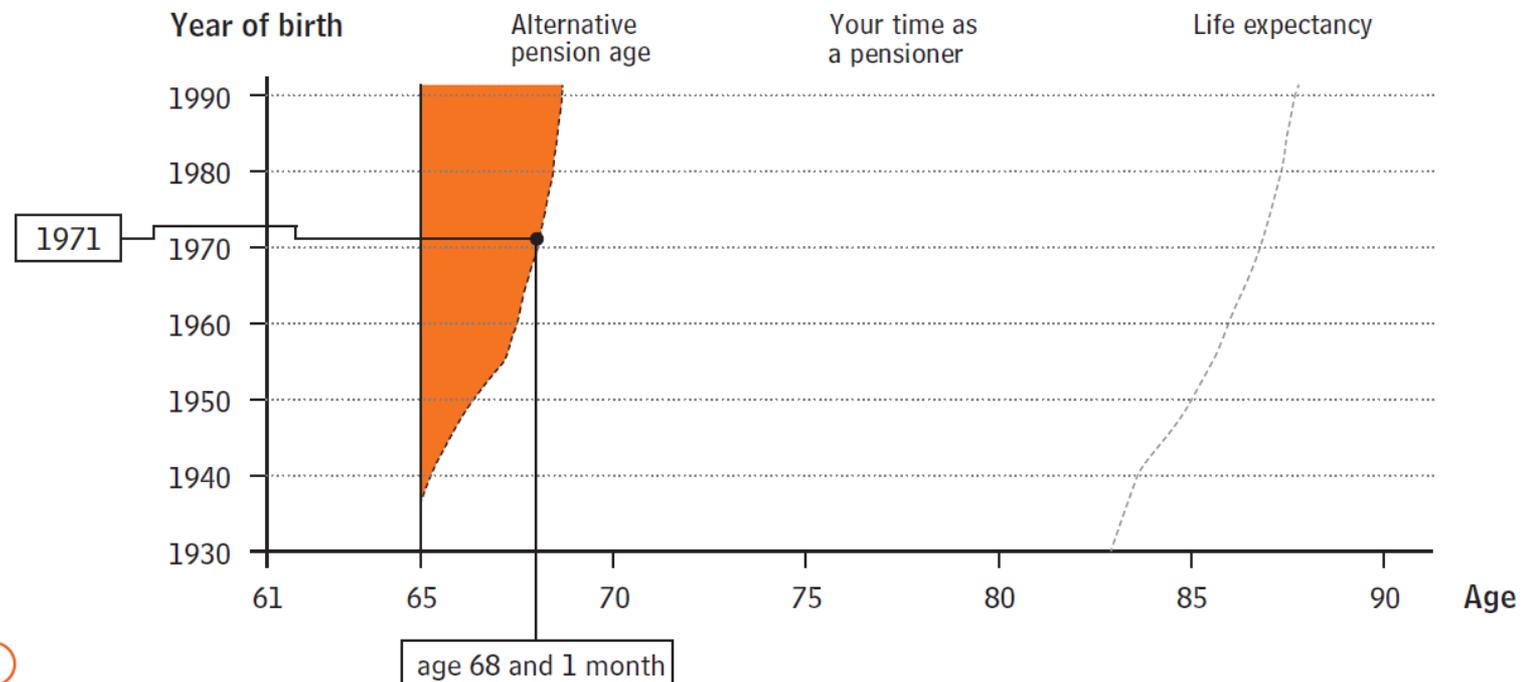- Forecasts at different ages

- Premium Pension fund values

Forecast for your National Public Pension

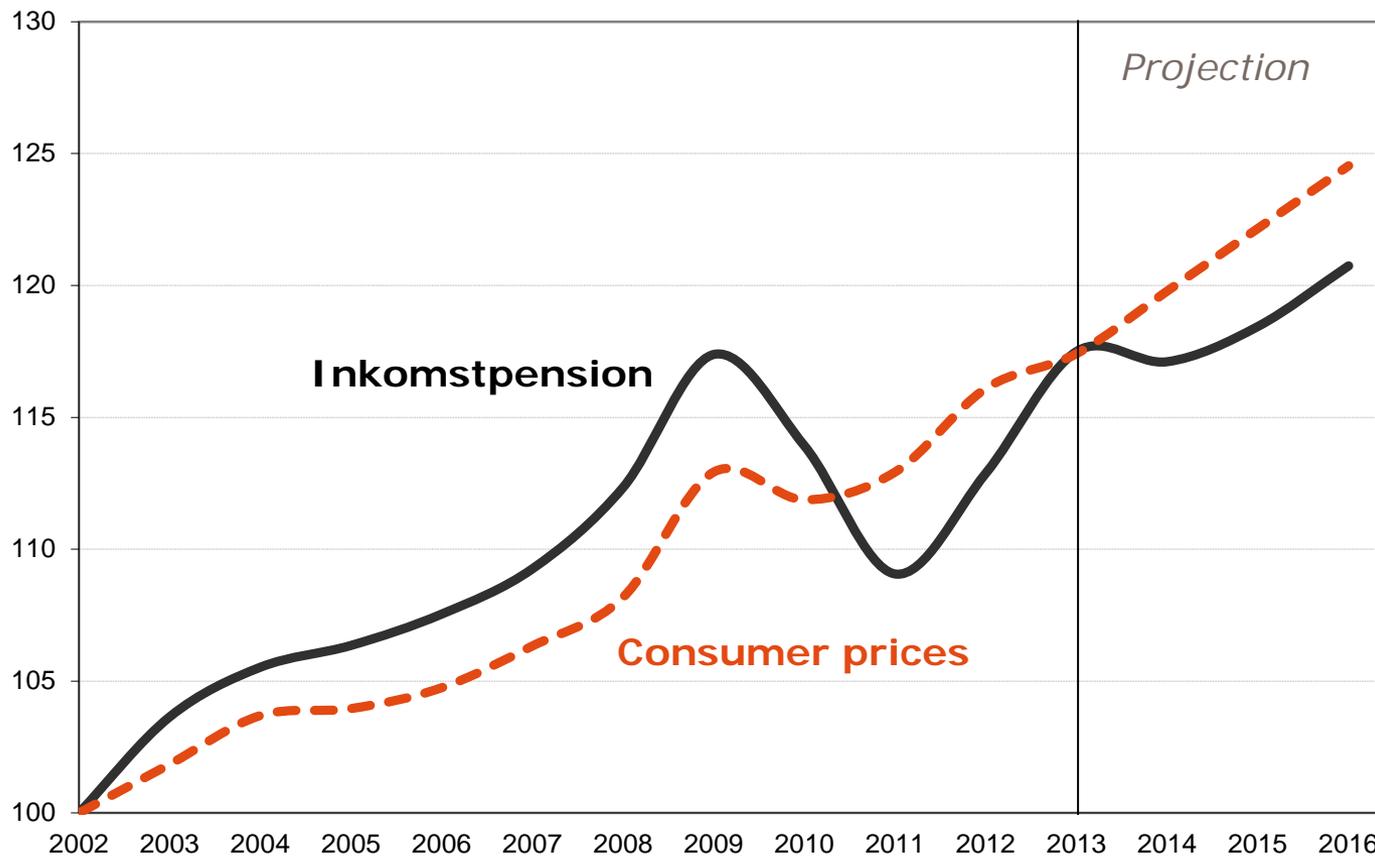| Pension age	age 61	age 65	age 68 and 1 month	age 70
Amount SEK/month	10 100	13 000	15 900	18 100

We live longer – that affects your pension

The life expectancy of the Swedish population is rising. You, who were born in 1971, need to work until age 68 and 1 month in order to receive the same pension that you would have received at age 65 if life expectancy had remained unchanged.

Fund strength, size of buffer fund divided by pension disbursements in the same year

Base Scenario

Optimistic

Pessimistic

Source: Orange Report, page 26

SWEDISH PENSIONS AGENCY
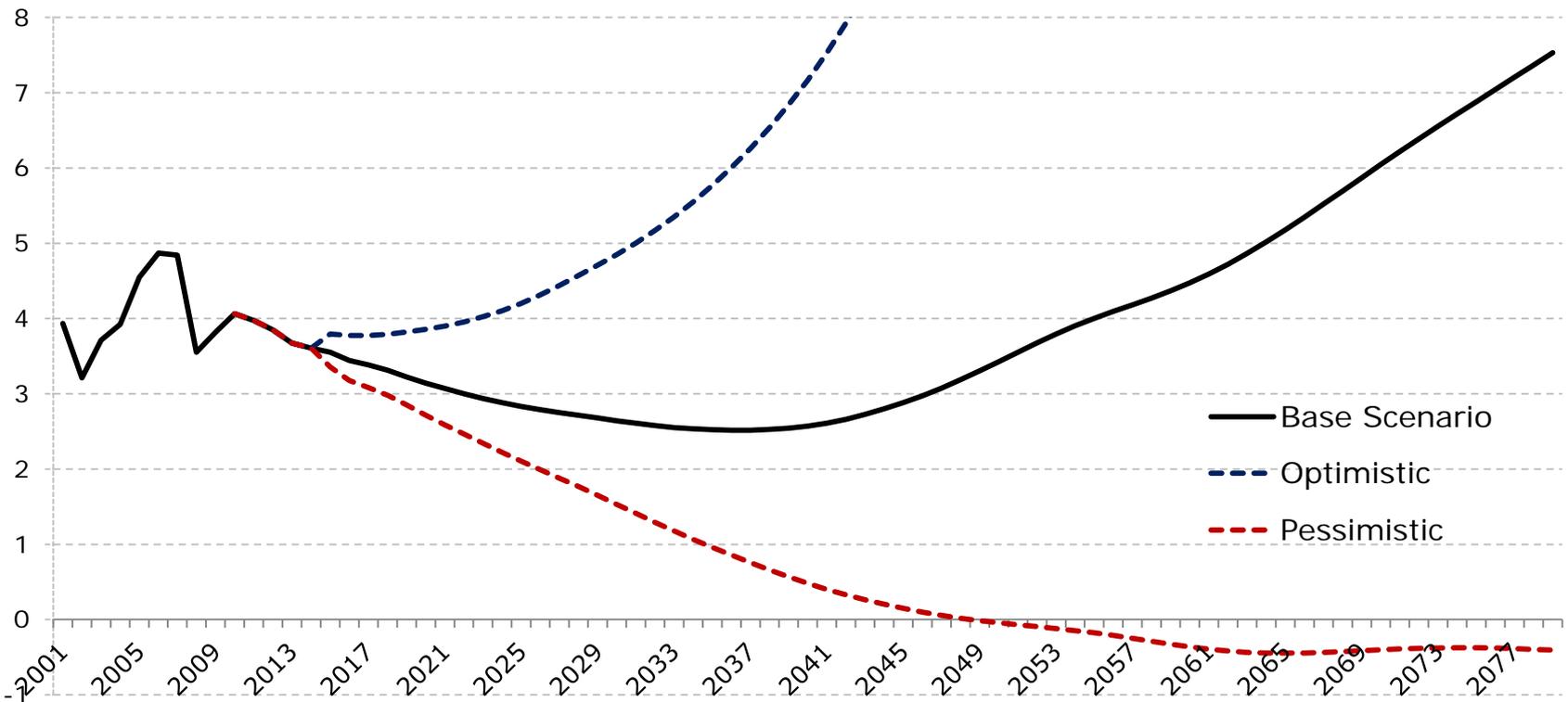
Accumulated change in inkomstpension 2003-2016 and accumulated change in price index

Projection

Inkomstpension

Consumer prices

Financial Stability

Financial stability in the public pension system

- Pension credits = contributions

- Indexation of pension benefits is tied to average wage growth

- Annuity divisor reflects life expectancy

- Buffer funds

- The Premium Pension is fully funded

How imbalances arise

- Pension benefits grow with average wages, whereas contributions are determined by growth in the sum of wages.

- Pension benefits are adjusted to observed life expectancy.

- The buffer funds vary with rate of return.

Balance is restored automatically

- Automatic adjustment to benefits as soon as deficit occurs.

- Rate of return will be reduced until balance is restored.

Annual change in inkomstpension 2003-2016

Percent at constant prices
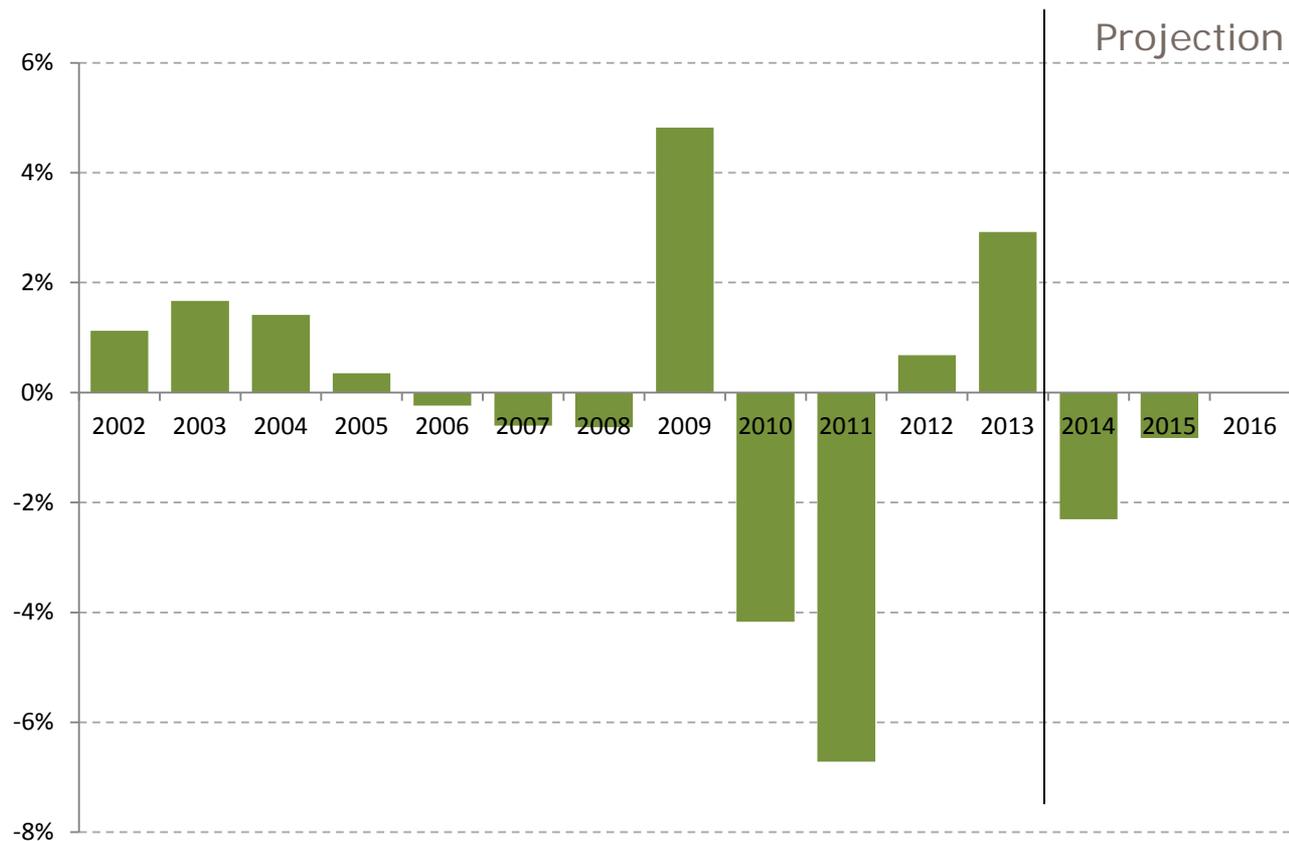
Other countries with NDC or parts of NDC

- Italy

- Latvia

- Kyrgyz Republic

- Poland

- Mongolia

- Russia

- China?

- Norway

Decisions taken by

- Egypt in 2011