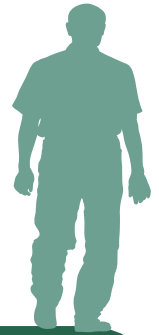


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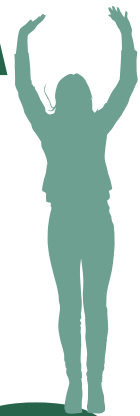
– an overview

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PENSION



IN SWEDEN

Public pension and occupational pension in Sweden

– an overview

A system that has evolved over more than 100 years

Sweden's system of public pension and collectively agreed occupational pension has evolved over a period of more than one hundred years. The public social insurance system is based on legislation and financed through contributions from both employers and employees. The collectively agreed insurance schemes are based on agreements between the social partner organisations and are financed through premium payments made by the employers. This memorandum presents a concise and simplified view of the different sub-areas that make up Sweden's pension system, how they are financed and which benefits are available in ordinary income levels.

The Swedish labour market can be divided into three sectors: private, state and municipalities and regions. Within the different sectors, there are 115 social partner organisations, 60 trade unions and 55 employer organisations. Together, they have signed around 670 collective agreements on wages and general employment conditions. Collective agreements on pension and insurance are usually signed by the central employer and employee organisations within the respective sector, such as the Confederation of Swedish Enterprise, the Swedish Trade Union Confederation (LO) (represents blue collar employees), and the Council for Negotiation and Cooperation (PTK) (represents white collar employees) for the private sector. There are a variety of actors who insure and administer these systems, offering complementary occupational pension and insurance solutions.

The individual's insurance coverage consists of several different benefits that complement each other. Sweden's public social insurance system provides basic protection for all. Collectively agreed insurances only apply to those covered by these collective agreements. Approximately 90 percent of all employees in Sweden are covered by collective agreements.

Employers who are affiliated with the Confederation of Swedish Enterprise through membership in an employers' organisation are usually required to take out collective insurance for their employees. The same applies to employers who have entered into a collective agreement directly with their employees' trade union. In this type of agreement, affiliated collective agreement, the employer is obliged to apply one or several national collective agreements without being a member of an employers' organisation. Employers without collective agreements are also able to take out insurance packages for their employees.

Actors

The public pension system is administered by the Swedish Pensions Agency (Pensionsmyndigheten).

There are a number of actors in the area of occupational pensions. One important actor is **Alecta**, which administers pensions for 33,000 companies and just over 2 million white collar workers on behalf of the Confederation of Swedish Enterprise and PTK. **AMF** was founded and is owned by LO and the Confederation of Swedish Enterprise and manages capital for approximately 4 million employees. Within the various occupational pension plans (e.g. ITP for white collar workers and Avtalspension SAF-LO for blue collar workers), individuals can also choose other procured pension managers to manage their occupational pension capital.

Collectum and **Fora** are two companies jointly owned by social partners that manage collective insurance and are pension administration companies for occupational pensions. The pension administration companies transfer the pension premium to the company chosen by the employee.

PENSIONS
MYNDIGHETEN

alecta



PTK



collectum
knutpunkt för ITP

Fora

Avtalat
PENSION OCH FÖRSÄKRING VIA JOBBET

Development of the pension system – significant historic milestones

1913

The Riksdag (the Swedish parliament) decides to introduce public pension

1917

Sveriges Privatanställdas Pensionskassa, SPP (now Alecta), is formed

1959

A Riksdag decision introduces the ATP – the national public pension system

1960

The social partners sign an agreement regarding supplementary pension for salaried employees - ITP

1973

STP, occupational pension agreement for private sector blue collar employees, AMF is founded

Competitive procurement of ITPK and the formation of an administration company

1990

Agreement between political parties (S, M, Fp, C and KdS) on a reformed public pension system

1994

A new public pension system is introduced

1999

The right to transfer pension capital is introduced for Avtalspension SAF-LO

2004

The right to transfer pension capital is introduced for ITP. Procurement to push down fees is introduced

2006

Agreement between political parties (S, M, L, C, Kd and Mp) on development of the pension system

2017

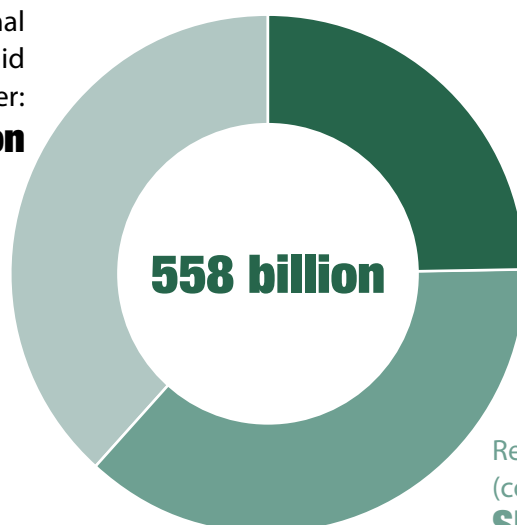
The Riksdag passes a bill on raised age limits in the public pension system

2022

The pension system

Financing: SEK 558 billion per year

Premiums for occupational pension (life insurance) paid by employer:
SEK 213 billion



Public pension contributions (Contributions paid by the employee):
SEK 138 billion
(7 % of gross salary – individual contribution)

Retirement pension contributions (contributions paid by the employer):
SEK 207 billion
(10.21 % of the salary – part of the employer's contribution)

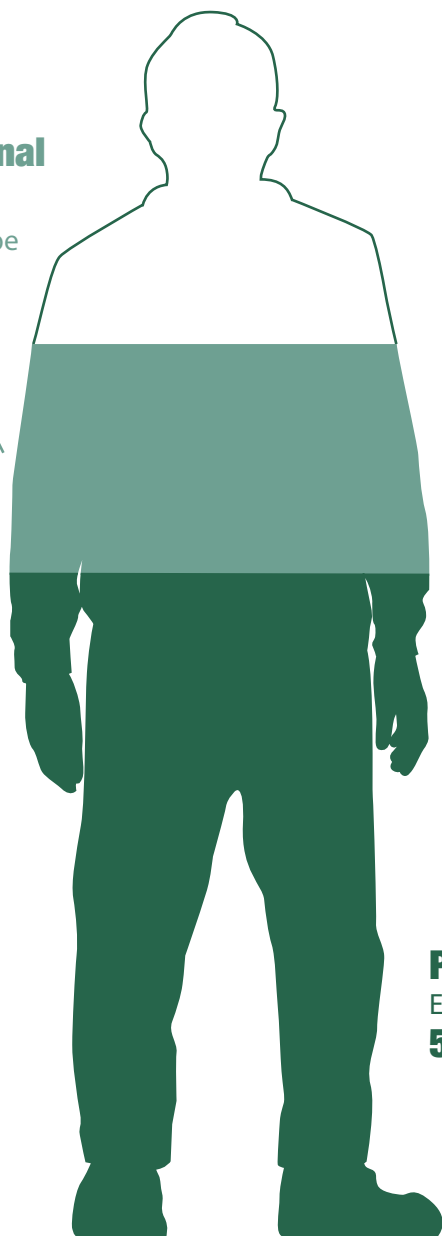
The public pension system aims to provide financial security in old age and is administered by the Swedish Pensions Agency. The parts that are financed through contributions by employers and employees are the income pension system and the premium pension system. The public pension contribution that all income earners pay is 7 percent of gross salary up to an income of 8.07 income base amounts* (SEK 47,748 per month in 2022). In connection with annual taxation, a tax reduction is given for the public pension contribution. Employers pay a pension contribution of 10.21 percent of the employees' wages. The contribution is paid on the entire income, including income that exceeds the ceiling of SEK 47,748 per month. Income above this ceiling does not accrue pension. That portion of the pension contribution goes to the government budget and is considered a tax.

In addition, there are tax-funded allowances for retired persons. These are the guarantee pension, income pension complement, housing supplement for pensioners and financial support for the elderly. These allowances amounted to SEK 28 billion in 2021 according to the government budget for 2023.

*The income base amount is an amount used to calculate pension fees. It follows wage growth in the country and is set by the Swedish government.

The pension system

Occupational pension:
Estimated to be
19 %



Public pension:
Estimated to be
54 %

Both the public pension system and occupational pension insurances are currently defined contribution schemes. This means that the payments made into the systems during the individual's working life determine the level of the pension. For older employees, there are still defined benefit occupational pension systems, where the individual's salary at retirement age determines the size of the pension.

There are several ways to calculate the pension in relation to income from employment. The Swedish Pensions Agency expects that at the time of retirement, the compensation rate (the pension amount in relation to the income in the years before retirement) in the typical case for a person born in 1975 (according to the target retirement age) will be 54 percent in public pension. In this typical case, the total pension will be 73 percent, according to the Swedish Pensions Agency.

In addition to public pension and occupational pension, there are also various forms of private pension schemes.

According to figures from Insurance Sweden, in 2021, pension payments amounted to SEK 365 billion from the Swedish Pensions Agency, SEK 121 billion from occupational pensions and SEK 115 billion from private pensions.

Example: A person born in 1975 who takes out pension according to the specified target retirement age can, in the typical case, expect to receive 54 percent of their salary in public pension and 19 percent in occupational pension, which amounts to a pension of 73 percent, according to the Swedish Pensions Agency.

The construction of the public pension system

The Swedish public pension system is mainly a pay-as-you-go system, which means that those who are actively working pay the pension for those who are retired. However, the premium pension is a funded system. An overview of the public pension system is presented here.

Contributions are reported to an individual account

As described on page 6, employees, employers and in some cases, the state, pay pension contributions each year. The contributions to the public pension are booked as pension rights in the employee's account for income and premium pension. The balance in the individual's pension account consists of the sum of pension rights (contributions), interest and inheritance gains. An administration fee is deducted from the account each year.

Buffer funds and the income pension

Of the pension contribution of 18.5* percent, 16 percent is allocated to the income pension's four buffer funds: First, Second, Third and Fourth Public Pension Fund. One quarter of the contributions is allotted to each fund, which finances a quarter of the pension payments. The income pensions that are paid each month are derived from the buffer funds. In principle, contributions that are paid each month are financing the pension payments to retired persons that same month.

Premium pension – a funded system

2.5 percent of the pension contributions are allocated to the premium pension. The premium pension system is a funded system, where individuals themselves can choose how the premium pension payments is to be invested. The premium pension payments are financed by the proceeds from the accumulated capital.

**The pension contribution is 18.5 percent of the pensionable income. The pensionable income is income after deductions for the public pension contribution of 7 percent. That is why contributions on the actual income amount to 17.21 percent.*



Future challenges for the pension system

Changes in working life

Approximately 90 percent of all employees in Sweden are currently covered by collective agreements. However, there are factors that may make it likely that more people in the future will not be covered by collective insurances and occupational pensions.

Changes in working life means, among other things, that it is becoming more common for individuals to have various forms of employment and employment conditions during their professional lives. Some new jobs that are emerging, for example, platform jobs, are based on other contractual relationships than employment relationships. In this case, it may be up to the individual to take out the insurance policies required for adequate insurance coverage and pension savings.

One group that is not covered by occupational pensions under collective agreements are self-employed persons/entrepreneurs/business owners. As a self-employed person/entrepreneur/business owner, the individual must make an active decision to save for retirement, for example, through pension insurance.

Increasing average life expectancy– more years in retirement

In 1913, the year the Riksdag decided to introduce a public pension from the age of 67, the average life expectancy was approximately 60 years. Today, the average life expectancy for men is 81 years and for women 84 years.

Statistics Sweden (SCB) continuously makes projections of future life expectancy. Today, the remaining average life expectancy at age 65 is 21.5 years for women and 18.9 years for men. The average 65-year-old male is thus expected to live to 84 years of age on average, and women are expected to reach 86 years of age on average. Those born in the mid-1990s, who will turn 65 in 2060, are expected to reach an average of 91 years of age, according to Statistics Sweden. Even so, we do not know for certain how life expectancy will change in the future. There are examples in the western world of declining life expectancy.

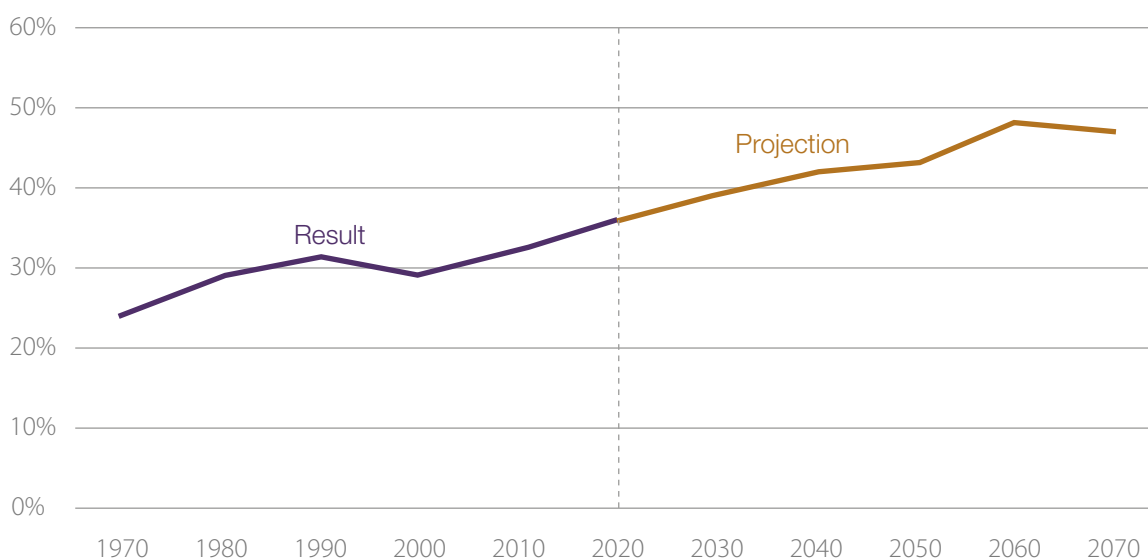


Rising elderly dependency ratio

Sweden's population is growing at a rapid pace. The age groups that are increasing the most are the groups that also have the greatest need of welfare services: children, young people and the elderly. However, according to Statistics Sweden's projections, the working age population is not increasing at the same rate. Demographic trends are putting pressure on the pension system.

The proportion of elderly people in the population is clearly rising. The below graph of the elderly dependency ratio, defined as the number of persons aged 65 and over per 100 persons aged 20–64. Historically, the proportion of elderly people in the population increased only marginally from the mid-1980s to around 2000, and then declined in the first decade of the 2000s. But after 2010, the number of elderly people in the population increased faster than the number of working age people. According to Statistics Sweden and the Swedish government, this is a trend which is expected to continue for the rest of the century, apart from occasional interruptions. The number of elderly persons per 100 persons aged 20–65 is expected to increase to approximately 42 persons around 2040 and approximately 47 persons in 2070.

Demographic dependency ratio, elderly



Number of persons aged 65 and over per one hundred persons aged 20–64. Source: Statistics Sweden, 2021

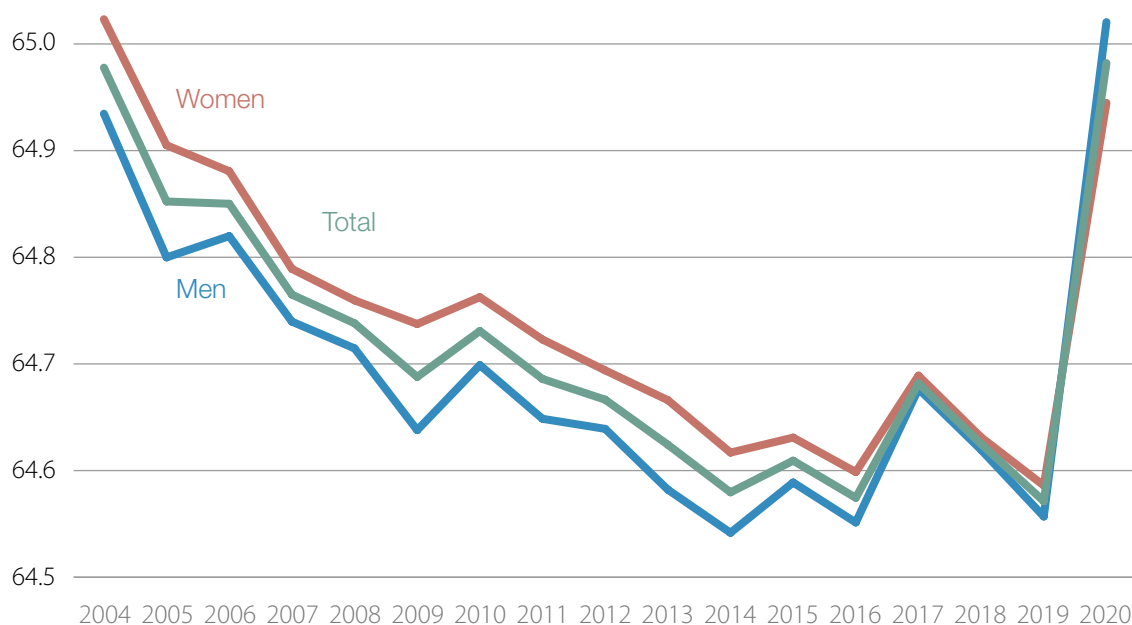
The average retirement age has increased

The average retirement age is reported by the Swedish Pensions Agency. In 2020, this age was 65.0 years for those who started withdrawing a public pension the same year. The differences between the sexes are minor (64.9 years for women and 65.0 years for men).

The increase in the average retirement age in 2020 is a result of the raised age limits; the earliest age for withdrawing a public pension was raised from 61 to 62* years and the upper age limit in the Employment Protection Act was raised from 67 to 68** years. The average retirement age in public pensions has thus returned to the 2004 level after an extended, slightly downward trend.

New age limits for public pension will apply starting in 2023, which will determine when an individual can first receive public income pension and when the guarantee pension, income pension complement and housing supplement can begin to be paid. This change marks a step towards introducing what is known as the target retirement age. Starting in 2026, the target retirement age will determine when various benefits can be paid.

Average retirement age 2004–2020



Average age for start of retirement pension withdrawal. Source: Swedish Pensions Agency

*63 years today (2023).
**69 years today (2023).

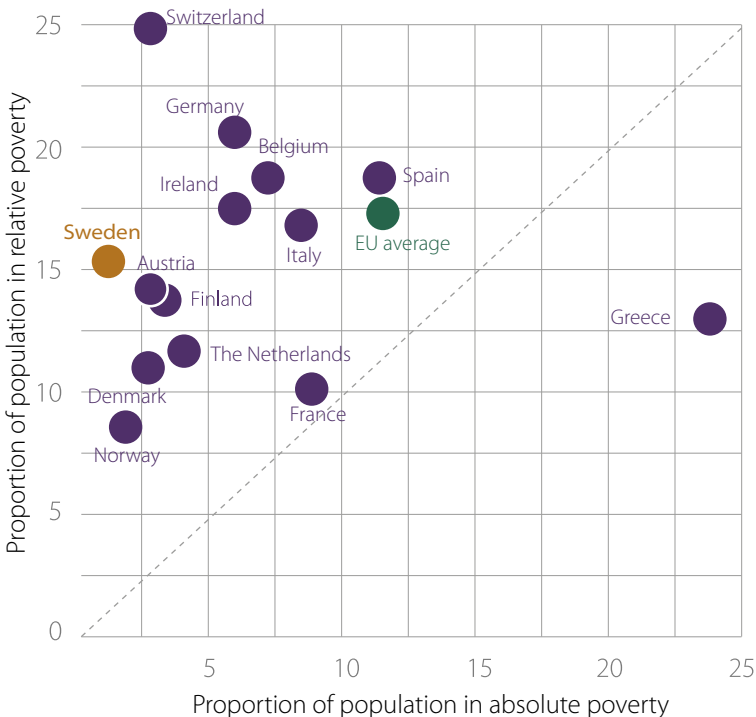
Sweden has the lowest percentage of people living in absolute poverty in the EU

In a report series published in 2021, What is the status of the pension system? (“Hur står det till med pensionerna?”), the Swedish Pensions Agency presented comprehensive factual data on the Swedish pension system and the financial situation of the country's retired people. One of the aspects covered in the studies is the incidence of poverty among Swedish pensioners. Two common measures of poverty are absolute poverty and relative poverty. The absolute poverty measure shows whether a person falls below a threshold where the individual has the means to meet the basic needs of life, and the relative poverty measure shows this standard in relation to other people in the population.

The Swedish Pensions Agency reports that Sweden has a lower rate of relative poverty among its elderly population compared to the EU average. In terms of absolute poverty, Sweden has the lowest rate among all member states.

The figure below shows a selection of countries in the EU, as well as the EU average, and the percentage of the population in each country that can be considered to live in relative poverty or absolute poverty. In the figure, the dashed line shows where the countries would fall if there was a complete correlation between relative poverty and absolute poverty. But as the figure shows, there is no direct correlation between absolute poverty and relative poverty in the countries included in the study. One example that the Swedish Pensions Agency highlights is the situation in Switzerland, which is a comparatively wealthy country with a high rate of relative poverty due to the generally high level of income in this country. But at the same time, Switzerland has a low percentage of the population living in absolute poverty. On the other hand, there are countries such as Greece, where relative poverty is in line with the EU average, yet at the same time, the country has a higher proportion of the population living in absolute poverty.

Proportion of the population aged 65 and older living in relative and absolute poverty



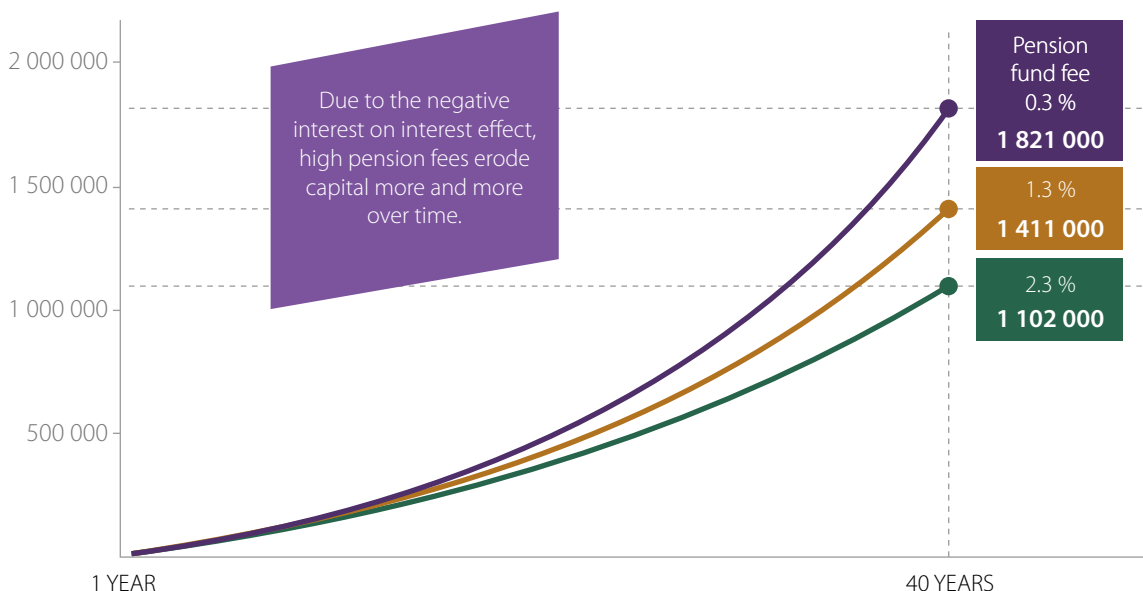
Source: Eurostat and the Swedish Pensions Agency

Fees affect the pension people receive

In order to reduce fees, the social partners have taken the initiative to procure investment alternatives. The task of reducing fees has been carried out by Collectum, the administration company for the collectively agreed occupational pension, ITP. In the years before Collectum first procured pension investments for private sector employees, the average fee for pension funds on the open fund market was 1.32 percent of the pension capital each year. Since 2007, fees have been reduced by 78 percent. This has been achieved while the average fund fee on the open market has remained largely unchanged.

The most obvious impact of Collectum's procurement is that fund fees have been reduced across the entire market for collective pension insurance. Lower fees mean increased pension capital when it is time to leave the workforce. As a result of the procurement to reduce fees, individuals can expect an increase in pension capital of SEK 700,000 after 40 years of work at an ordinary salary level, according to a sample calculation that Collectum presented in the report Tear down the barriers to work during retirement, 2022 ("Riv hindren för arbete under pensionering, 2022"). That is the additional capital an individual can expect at a six percent annual return when the fees, following procurement, are 0.3 percent instead of 2.3 percent, which is a common fee level in many occupational pensions outside the collective agreement, Collectum explained.

The impact of pension fund fees on an individual's pension



HOW WE PERFORMED THE CALCULATION:

We based the calculations on three fee levels: 0.3 percent, which is the average for unit-linked insurance within the occupational pension ITP; 1.3 percent, which is the average for all funds on the open market; and 2.3 percent, which is a standard fee level in many occupational pensions outside the collective agreement.

- The pension premium is SEK 1,000 per month.
- The savings period is 40 years.
- The return is 6 percent per year.

Source: Collectum