

Sweden

The new pension system, introduced in 1999, applies to people aged 45 or under at the time of reform. The old and the new systems will cover older workers proportionally: people born 1938-53 will receive pensions under a mix of the old and new rules. The earnings-related part is based on notional accounts. There is a small mandatory contribution to individual, defined-contribution pensions and an income-tested top-up. Occupational pension plans – with defined-benefit and defined-contribution elements – have broad coverage.

Qualifying conditions

Eligibility for the guarantee pension will be earned with three years' residency. Maximum pension is earned with 40 years' residency and is reduced proportionally for shorter periods. The standard pension age for occupational plans is 65 with an early pension age of 55 and there is a minimum entry age of 28. The earnings-related, public pension can be claimed from 61.

Benefit calculation

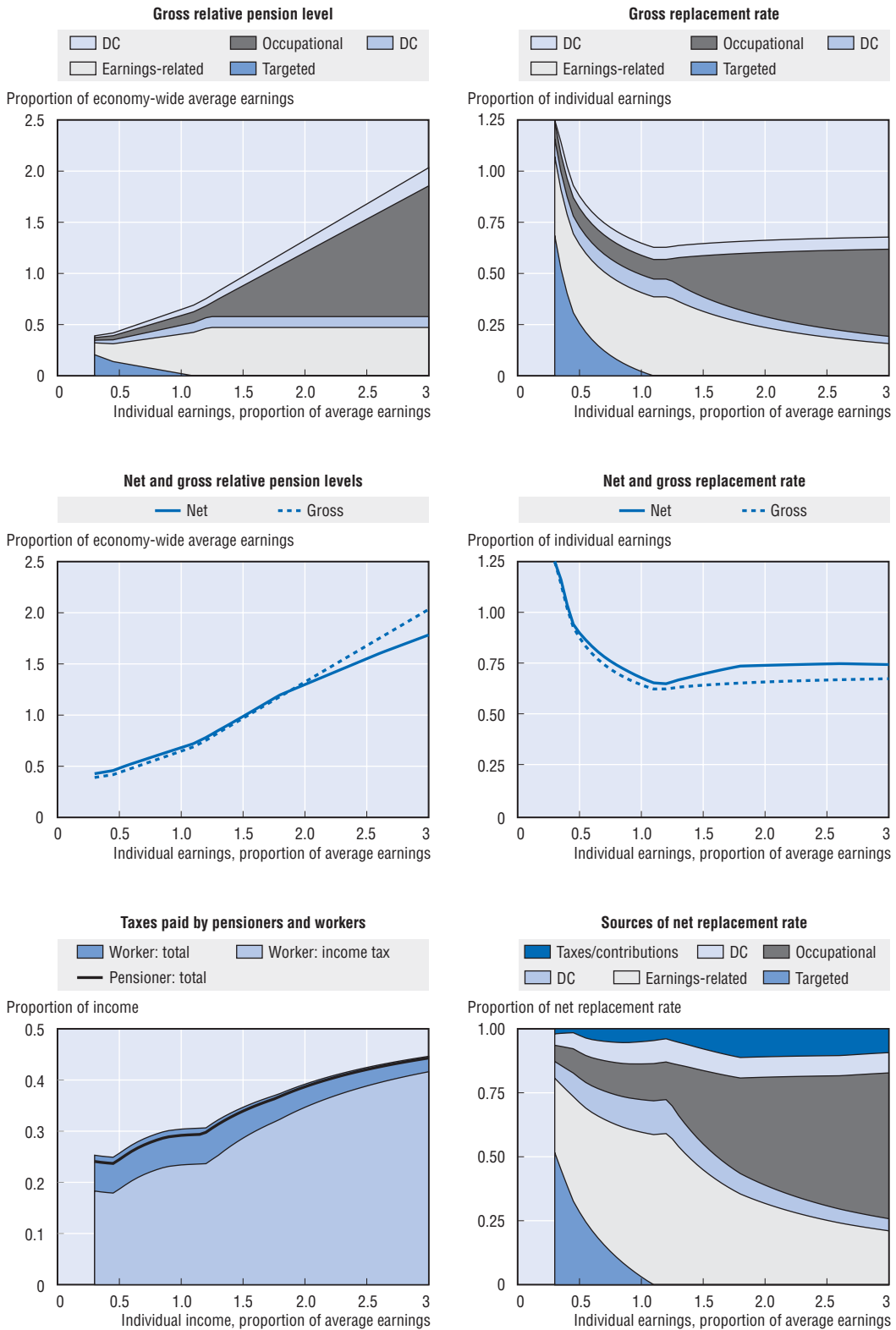
Earnings-related

The new earnings-related scheme – the “income pension” – uses notional accounts. Contributions of 16% of pensionable pay are credited and then up-rated in line with a three-year moving average of economy-wide earnings. Pensionable pay is defined as earnings less the employee contribution of 7%, giving an effective contribution rate on gross earnings of 14.88%. Contributions are only levied when earnings exceed a small floor of SEK 11 310 in 2002, less than 5% of average earnings, although they are due on the whole of earnings for all people earning above the floor. There is a ceiling to benefits calculated in terms of pensionable earnings of SEK 291 000 in 2002. However, this again relates to pensionable earnings, giving an effective ceiling relative to gross earnings of SEK 313 116 in 2002 (around 130% of average earnings). There is no ceiling on employer contributions even though pension rights do not accrue on earnings above the ceiling.

At retirement, the accumulated notional capital will be converted to an annuity. This calculation will use a coefficient dependent on individual retirement age and contemporaneous life expectancy (based on the previous five years' unisex mortality table). A real return of 1.6% a year will be assumed in this calculation. Illustrative values for the annuity coefficient at age 65 are 15.4 for 2000 rising to 15.9 by 2020. The annuity coefficient is currently 18.2 for retirement at 61 and 13.0 at age 70.

After retirement, pensions are uprated with average earnings less a “growth norm” of 1.6%. Real wage growth short of this norm means that real pensions will fall. There is also a “balance mechanism”: if assets (the buffer fund plus the estimated value of assets in

Pension modelling results: Sweden



Source: OECD, based on information provided by the countries.

the form of contribution revenues) fall below liabilities (pensions) then indexation of pensions in payment and returns credited to notional accounts are reduced in order to restore the balance between liabilities and assets.

For modelling purposes, the annuity coefficients are calculated using the above rules and the relevant mortality data from the United Nations/World Bank population database. It is assumed that the balance mechanism does not affect the uprating of benefits.

Targeted

The “guarantee pension” is an income-tested top-up for people with low levels of benefit from notional accounts. For a single person, the guaranteed benefit in 2002 was SEK 80 727 (formally, equal to the 2002 price base amount) or 33% of average earnings.

The guarantee pension is withdrawn at 100% against the first SEK 47 754 (2002) of income from the earnings-related pension, thereafter at 48%. This threshold is equivalent to 20% of average earnings. Only when earnings-related pension exceeds SEK 116 353 – nearly 50% of average earnings – is entitlement to the guarantee exhausted.

The guarantee level is price indexed.

Defined contribution

A further 2.5% of pensionable income (giving an effective contribution rate against gross earnings of 2.325%) will be paid into personal pension accounts: the premium pension. People have a broad choice of where these funds are invested.

At retirement, a new public agency will be responsible for converting the accumulated balance into an annuity. Alternatively, people will be able to choose a variable annuity, where their funds continue to be invested by their chosen fund manager. These annuities do not have a guaranteed value.

Voluntary occupational

The four major occupational schemes together cover 90% of employees. The modelling uses the ITP scheme for white-collar workers, which mixes defined-benefit and defined-contribution elements.

The defined benefit is 10% of final salary on earnings up to a ceiling specified as 7.5 times the base amount or SEK 291 000 in 2002. However, this threshold is in practice lower than the effective ceiling to the public scheme because it applies to gross earnings rather than pensionable earnings. Between this threshold and around 3.1 times average earnings, the full-career replacement rate is 65%; and from around 3.1 to 4.6 times average earnings, 32.5%. A full pension is earned with 30 years’ contributions from an entry age of 28. Shorter tenures result in a proportionally reduced benefit.

Pensions in payment are adjusted at the discretion of the ITP board. However, recent increases have been broadly in line with price inflation and so this procedure is assumed in the modelling.

The ITP also has a defined-contribution component, which receives a contribution of 2% of gross earnings. The modelling assumes that this is withdrawn at the normal pension age in the form of a price-indexed annuity. The entry age is again 28.

Personal income tax and social security contributions

Taxation of pensioners

Older people are entitled to a special income-tax deduction of between SEK 11 104 and SEK 59 688 (depending on pension income). This extra deduction is withdrawn at 66.5% of income above the minimum pension level, implying no special deduction for pensioners with incomes above SEK 132 605.

These concessions were abolished in 2003 as part of the policy package that included the introduction of the guarantee pension. Since the aim of the modelling is to capture the long-term structure and parameters of the pension system, the system modelled includes the guarantee pension but without the additional tax concessions.

Taxation of pension income

There are no special allowances for pension income.

Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

Pension modelling results: Sweden

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	43.9	54.4	64.8	96.9	132.4	167.8
Net pension level (% of average net earnings)	48.1	58.4	68.2	98.7	129.9	155.1
Gross replacement rate (% of individual earnings)	87.8	72.5	64.8	64.6	66.2	67.1
Net replacement rate (% of individual net earnings)	90.2	76.4	68.2	70.1	74.3	75.0
Gross pension wealth (multiple of average earnings)	7.0	8.7	10.4	15.5	21.0	26.6
Net pension wealth (multiple of average net earnings)	7.7	9.3	10.9	15.8	20.6	24.5
	8.6	10.4	12.1	17.0	22.8	27.3

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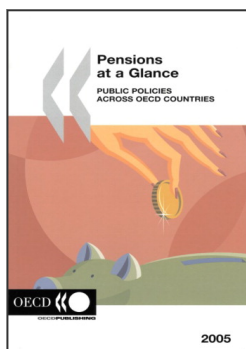
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