

# Issue 1

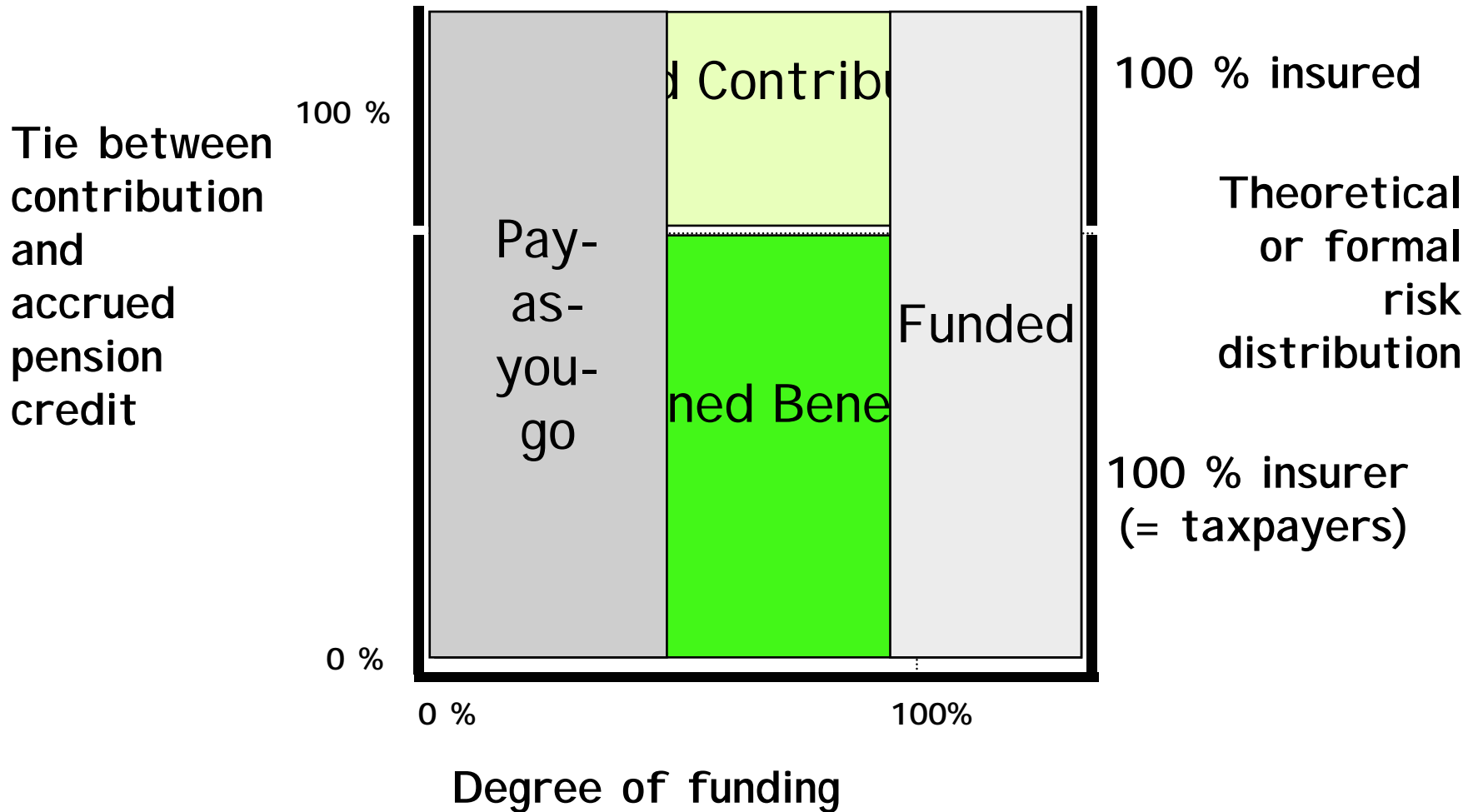
a) What difficulties confronted Swedish reformers who advocated for abolishing the flat basic pension and re-establishing the wage-earnings proportional pension benefits together with the newly introduced minimum guaranteed pension?

b) Without means test, how can be minimum pension benefits correctly assessed?

# Reform Objectives

- A** Financial & political stability  
(= Credibility?)
- B** Transparency
- C** Maximize inter-generational fairness
- D** Basic income security

# Four basic design options



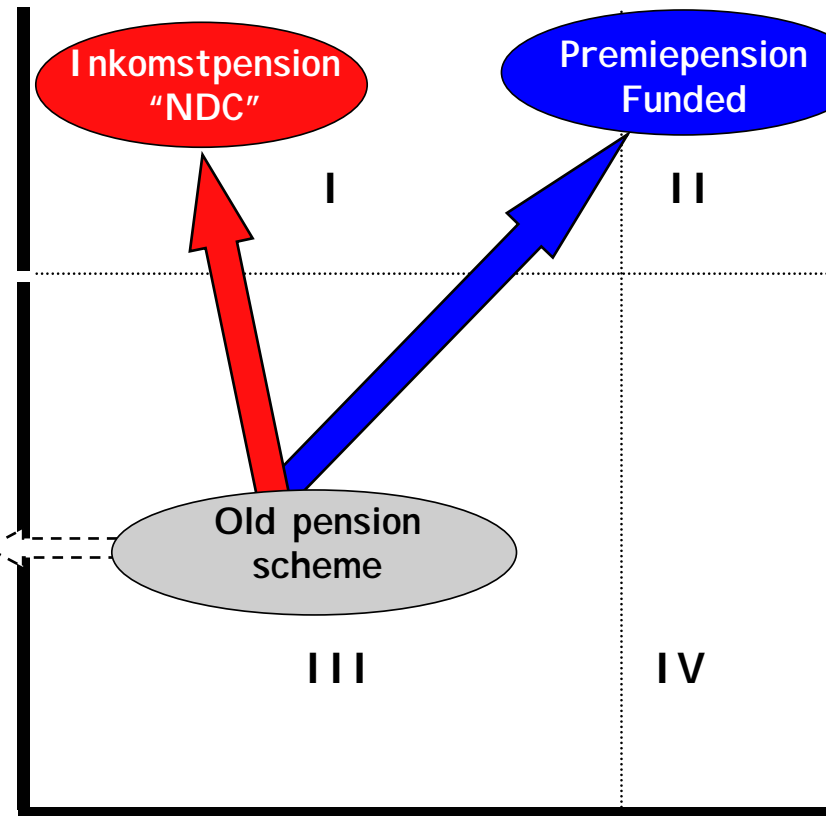
# Reform Strategy

Contribution 16 %      Contribution 2.5 %

Defined Contribution

Defined Benefit

D = Disability pension  
S = Survivors pension  
G = Guarantee pension



100 % insured

Theoretical or formal risk distribution

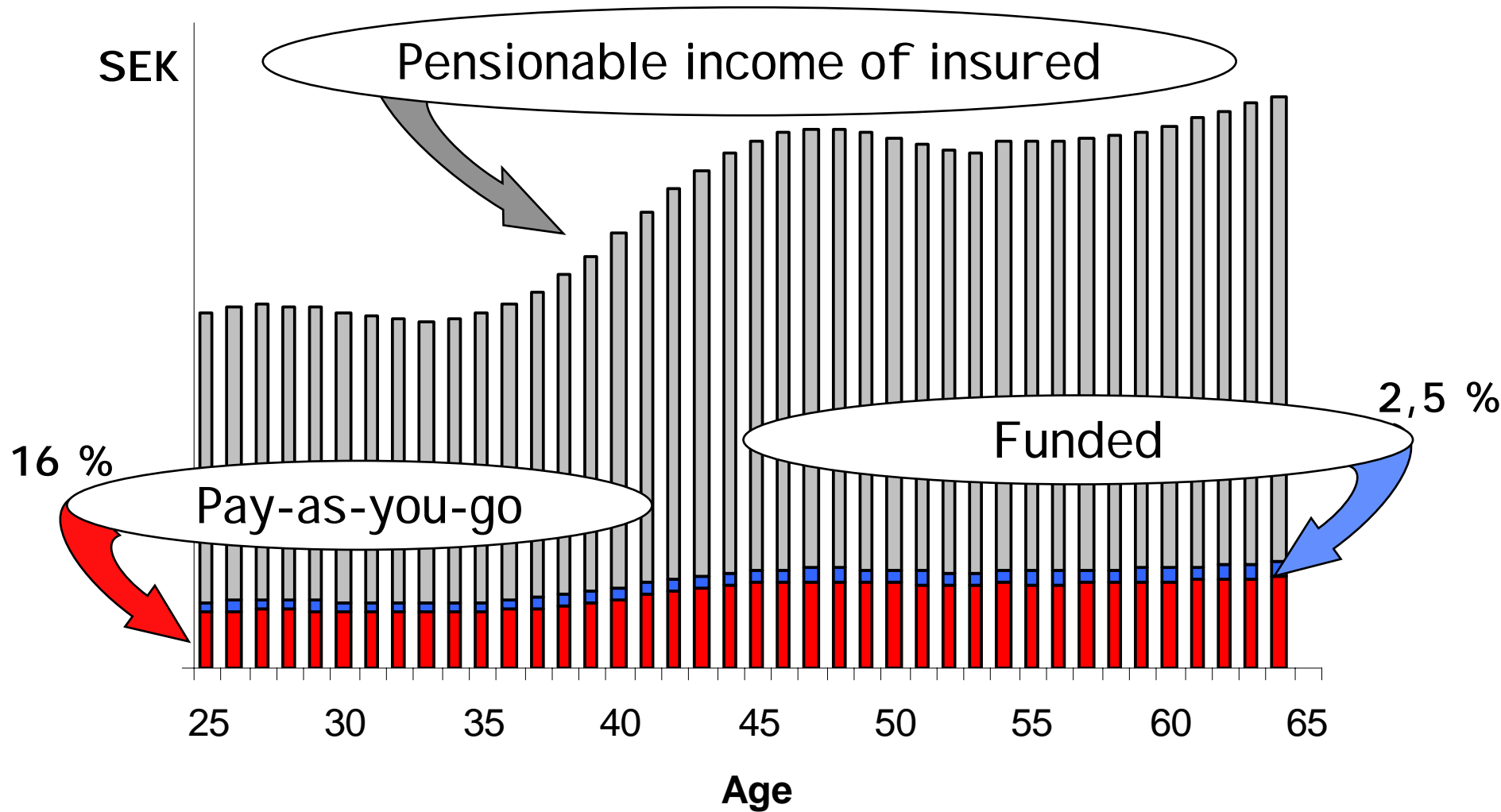
100 % insurer (= taxpayers)

PAYGO

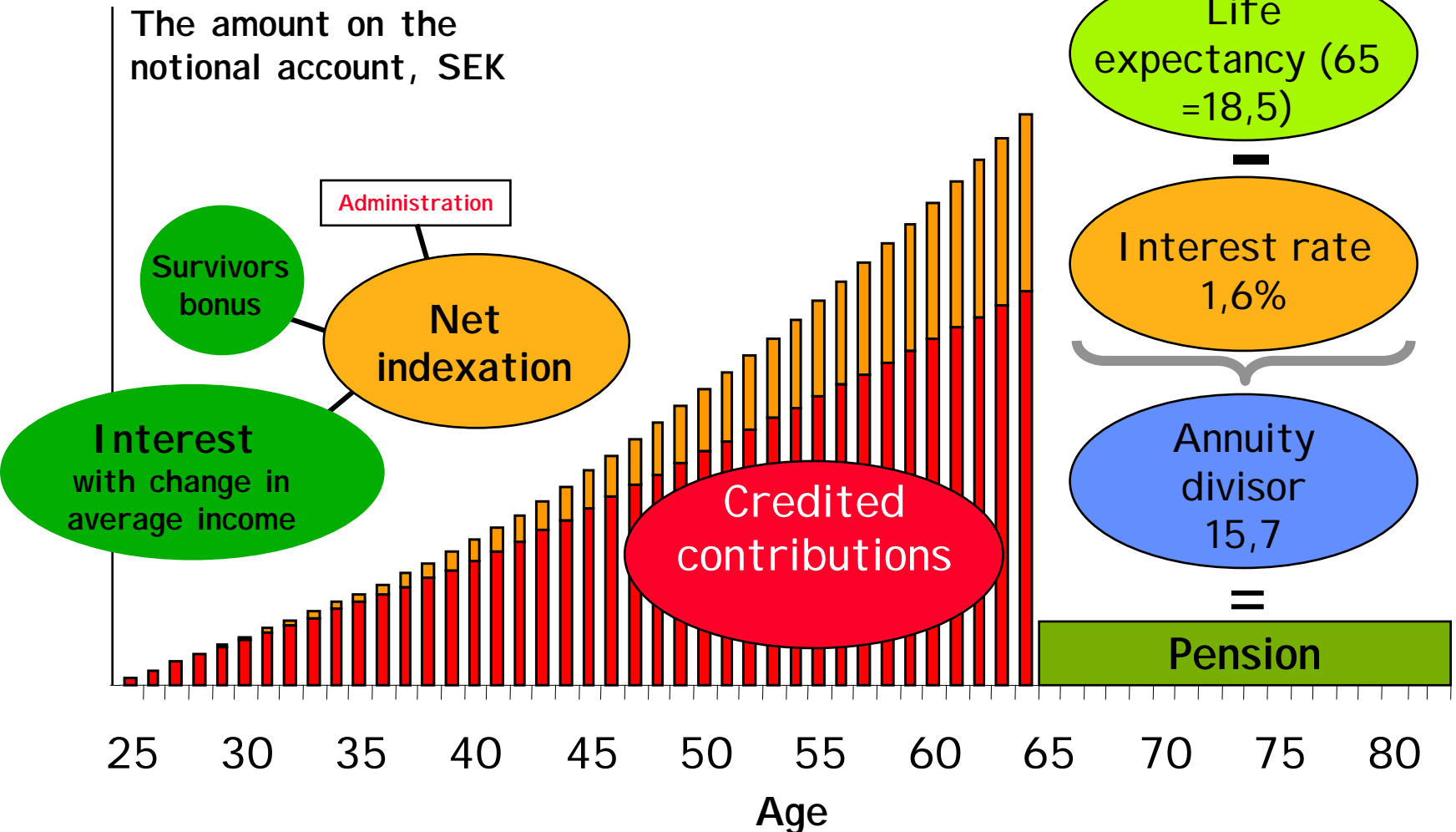
Funded

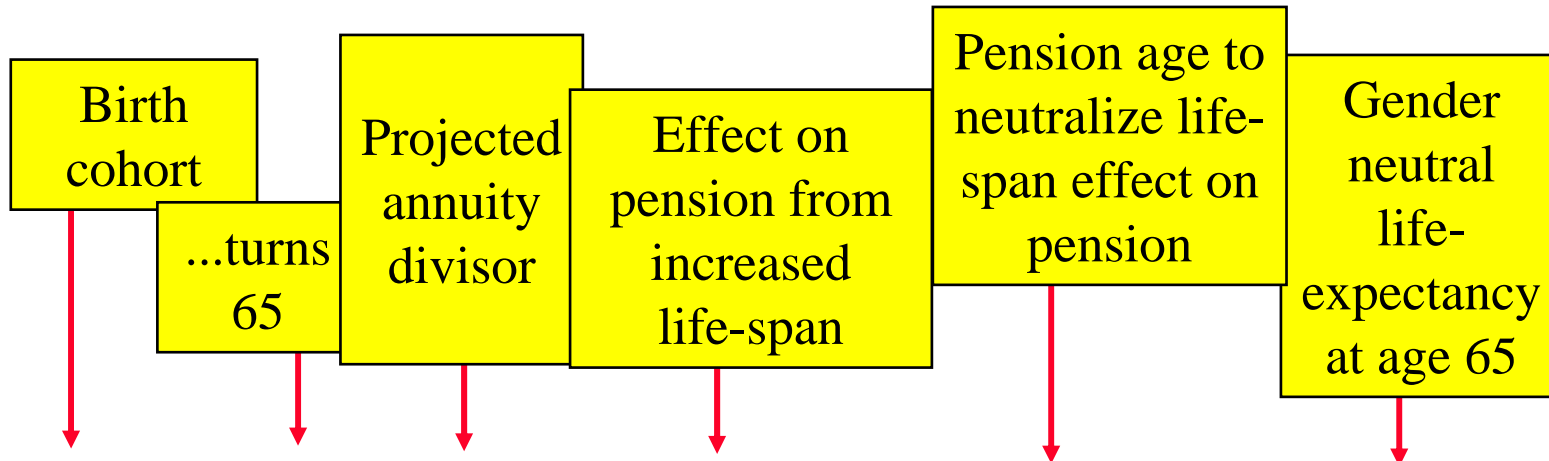
# **What Is a Notional Defined Contribution (NDC) Pension System?**

# Each crown paid during life result in the same amount of pension credit



# Development of notional account and conversion to an annuity





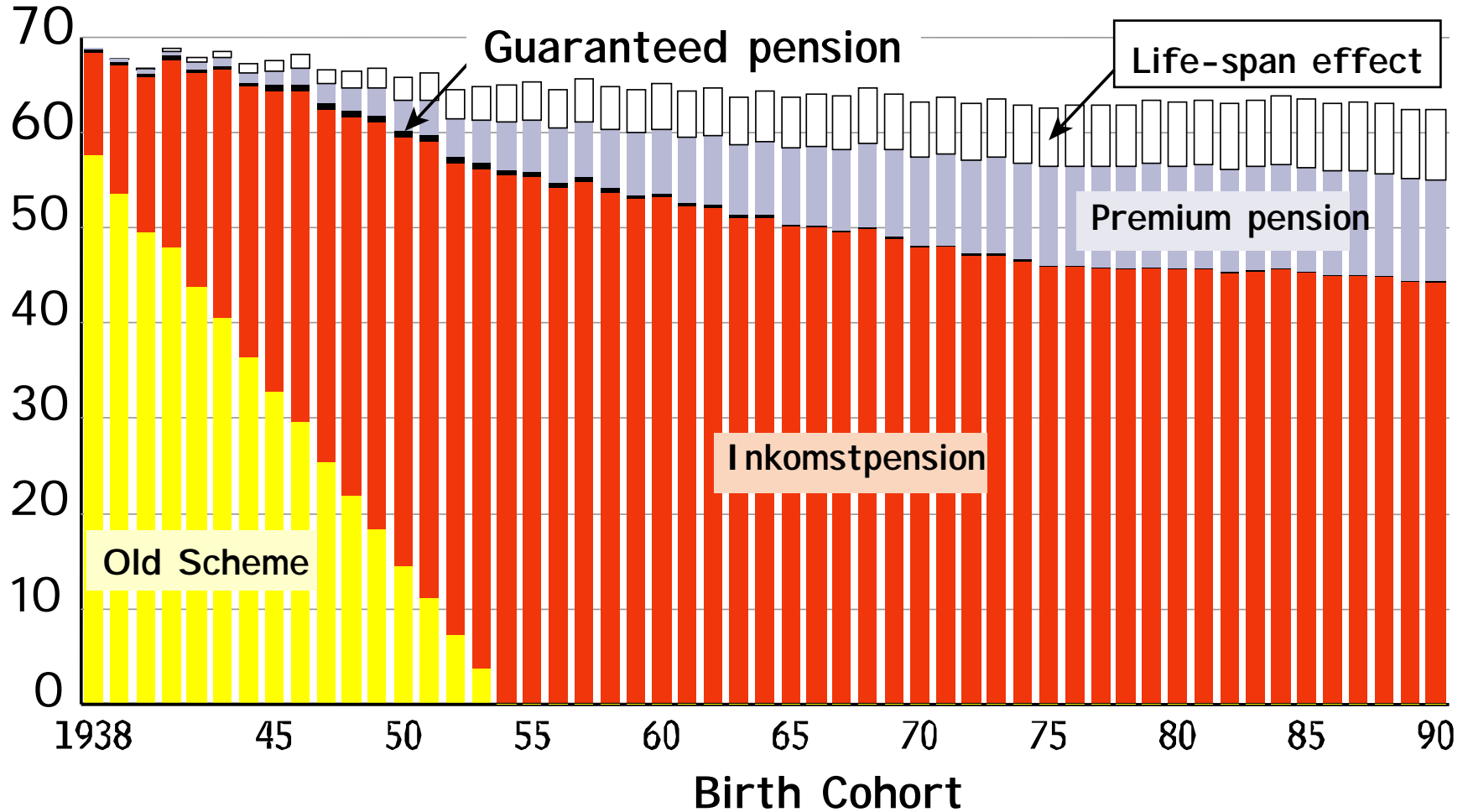
| Birth cohort | ...turns 65 | Projected annuity divisor | Effect on pension from increased life-span | Pension age to neutralize life-span effect on pension | Gender neutral life-expectancy at age 65 |
|--------------|-------------|---------------------------|--|---|--|
| 1940         | 2005        | 15.7                      | –  | 65 years  | 18 y. 6 m.                               |
| 1950         | 2015        | 16.4                      | – 4 %                                      | + 7 months  | + 11 months                              |
| 1960         | 2025        | 17.0                      | – 7 %                                      | + 13 m.   | + 20 m.                                  |
| 1970         | 2035        | 17.5                      | – 10 %                                     | + 18 m.   | + 28 m.                                  |
| 1980         | 2045        | 17.9                      | – 12 %                                     | + 23 m.   | + 35 m.                                  |
| 1990         | 2055        | 18.2                      | – 13 %                                     | + 26 m.   | + 41 m.                                  |



# Projected Compensation Rate at age 65, Cohorts 1938-1990

Average pension at 65 relative to average wage for those working at that time

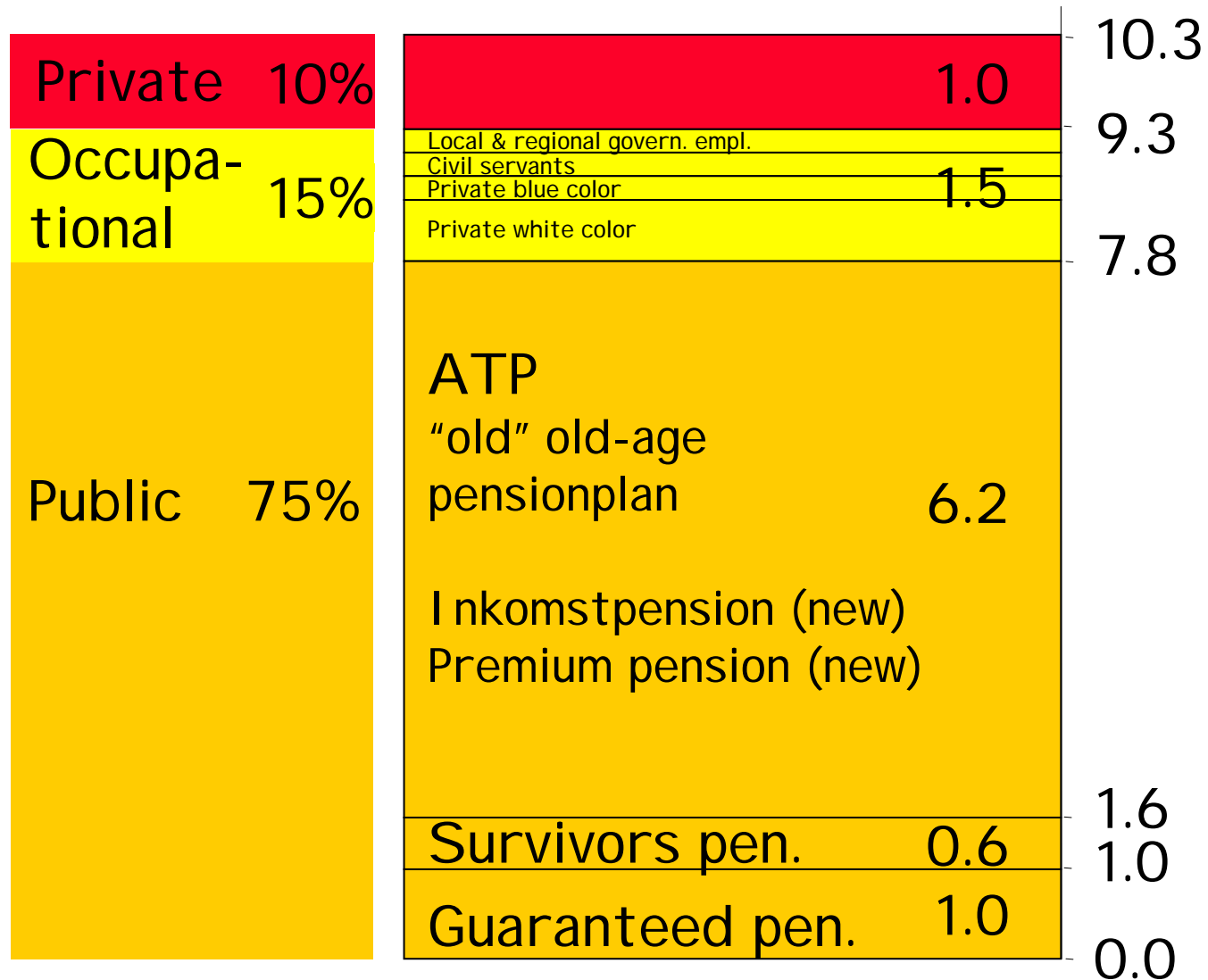
Percent



# Swedish pension market, payments

“Market share”

Percent of GDP



# Issue 1

a) What difficulties confronted Swedish reformers who advocated for abolishing the flat basic pension and re-establishing the wage-earnings proportional pension benefits together with the newly introduced minimum guaranteed pension?

b) Without means test, how can be minimum pension benefits correctly assessed?

# The main difficulties were to:

secure an agreement between normally conflicting groups of political parities,

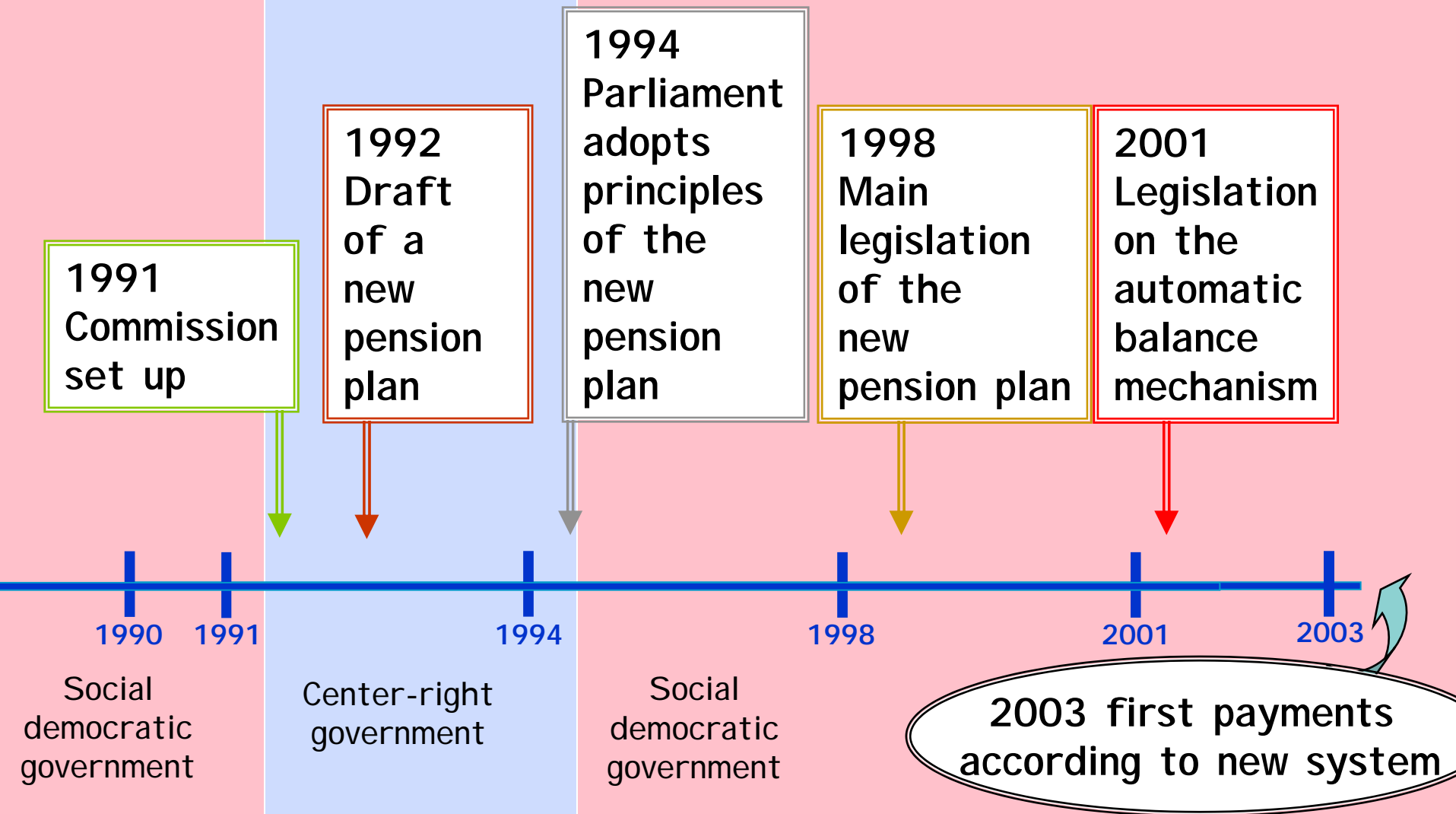
not to break up the political agreement during the long reform process

overcome, or survive, wide spread political resistance against the change

agree with the ministry finance the financing of the reform

develop, negotiate, the precise legislation and secure its implementation by the administrative body of the government

# Swedish Pension reform - a long process



But transition rather quick i international comparison

# Possible lessons from the Swedish pension reform...

A

...very radical changes of mature public pension systems are sometimes possible in even in "stable" democracies/economies

B

...there may exist an alternative to "continues pension reform"  
- a big bang reform and then silence... (Realistic? Good?)

C

...it is, at least has been, technically and politically possible to establish an automatically financially stable pension system

D

...some methods that are semi or entirely new, such as the:

- annuity divisors
- balance mechanism
- accounting standard?

# Possible lessons from the German pension reforms...

“You can only sell reform to politicians when you can guarantee results within their term. Holding onto and extending power takes priority over problem solving”

Bert Rürup recently told the German weekly *Stern*.

# Possible lessons from the German pension reforms...

That's why - instead of proposing revolutionary change all at once - Rürup says he prefers incremental steps, hoping each will take hold and pave the way for further reforms:

"I would rather put through powerful reforms in small steps than propose a 'brilliant concept' likely to end up in the history (but not the law) books."



# The German lessons are probably more universal than the Swedish...

I agree with Rürup, but the Swedish reform does not!

The Swedish reform is a result of an atypical, perhaps unique, political process.

Will it prove “successful” or not? We don’t know, and in a scientific sense we will never know.

... however the reform is an undisputable success in at least one sense!

...answer on the penultimate slide

# ...redistribution of incomes

## Types of Pensionable Income

Sickness

unemployment

parental

benefits, etc

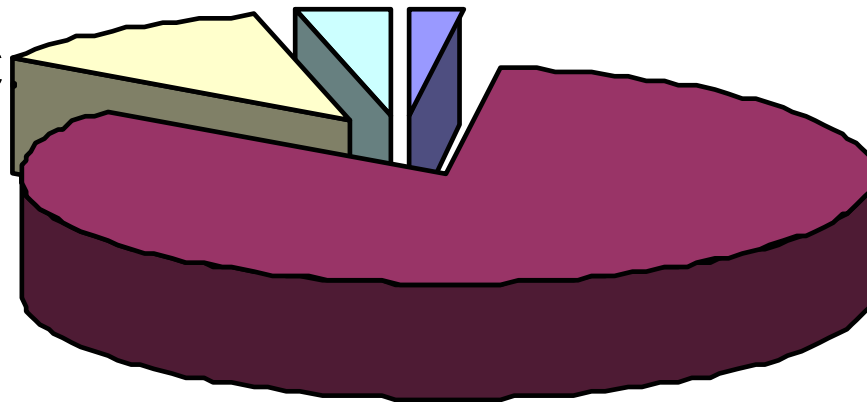
11%

Disability benefits

4%

2%

Child years



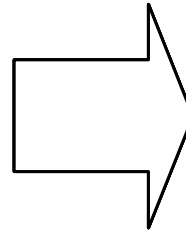
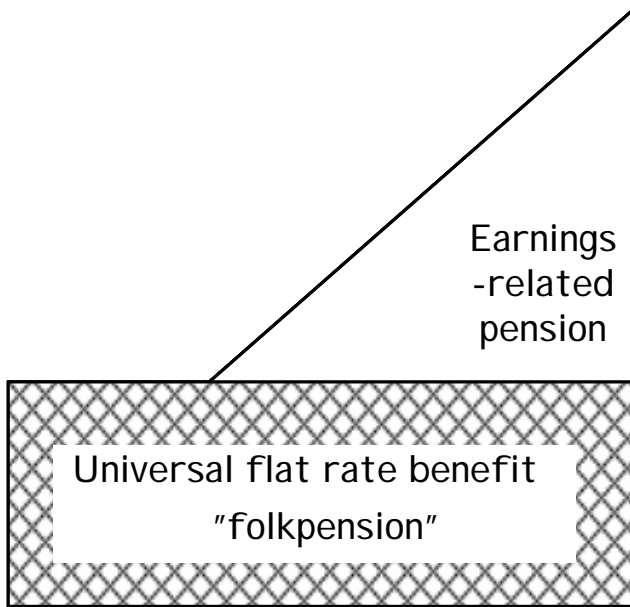
83%

Wages &

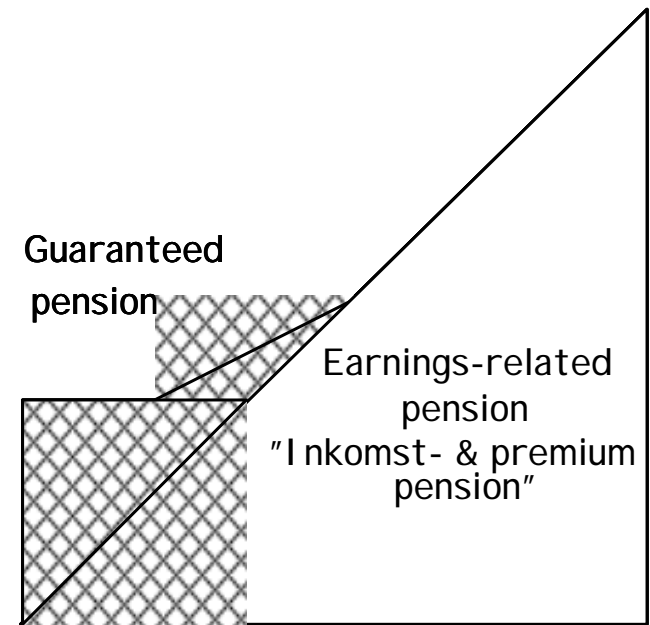
incomes of self employed

# *The Swedish Shift of Pension Structure - from a restricted perspective*

Pre-reform  
structure

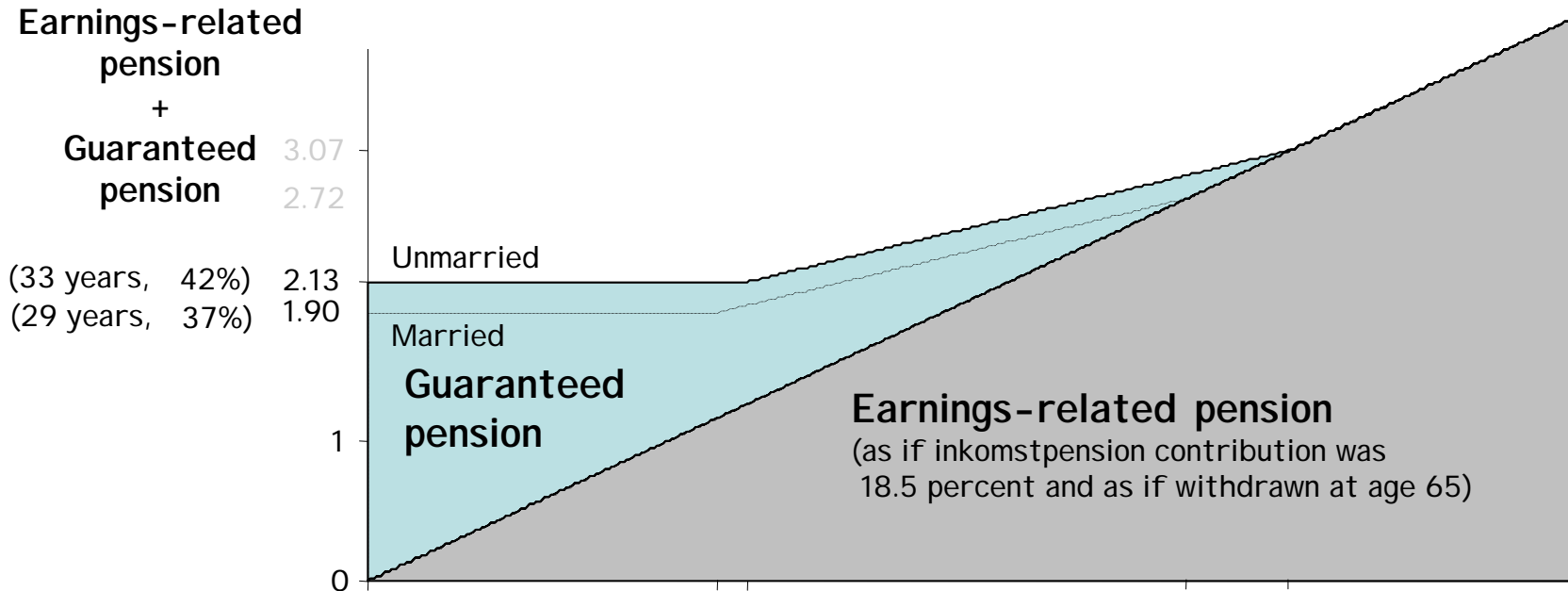


Post-reform  
structure



# The guarantee is a basic security financed with general tax revenue

It changes the distribution of risks between insured and taxpayers (contributors) for those with low or no income-related pension



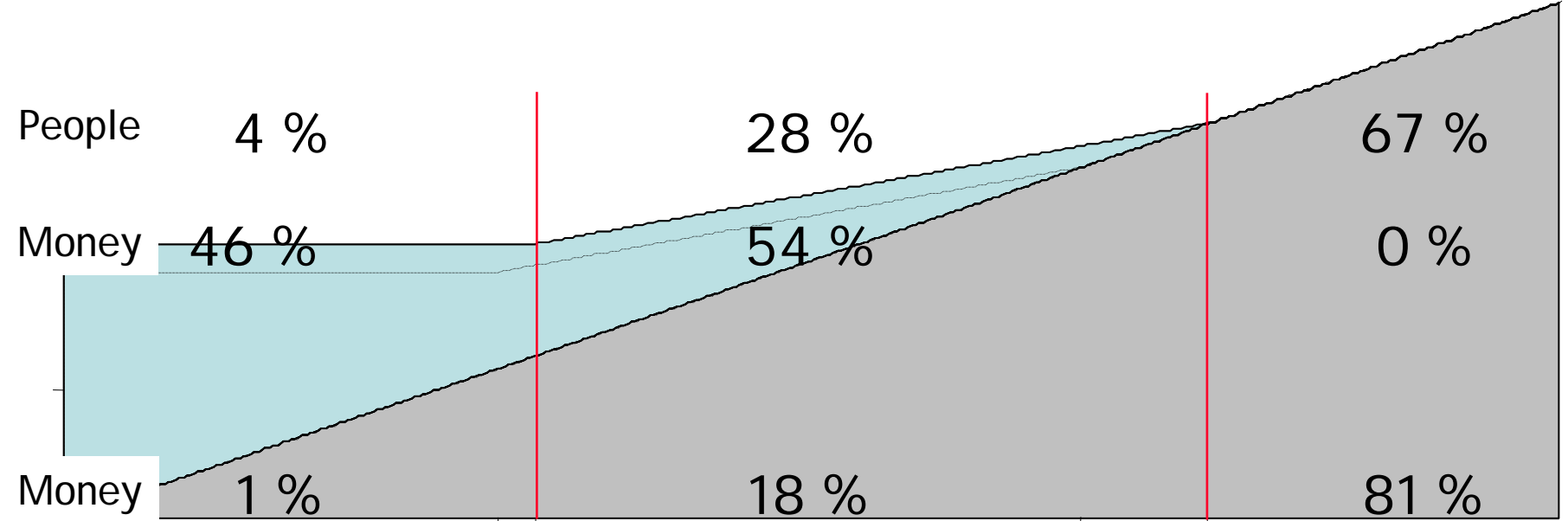
|   |      |      |      |      |
|---|------|------|------|------|
| Brackets in price indexed base amounts                | 1.14 | 1.26 | 2.72 | 3.07 |
| Average pensionable income                            | 22%  | 25%  | 54%  | 60%  |
| Years with average pensionable income to pass bracket | 18   | 19   | 42   | 47   |
| Years with income equal to ceiling to pass bracket    | 11   | 12   | 26   | 30   |

# The Importance of the Guaranteed Pension

Individuals born 1939

Share of insured persons      Share of guaranteed pension      Inkomst & old scheme pension      Total public pension

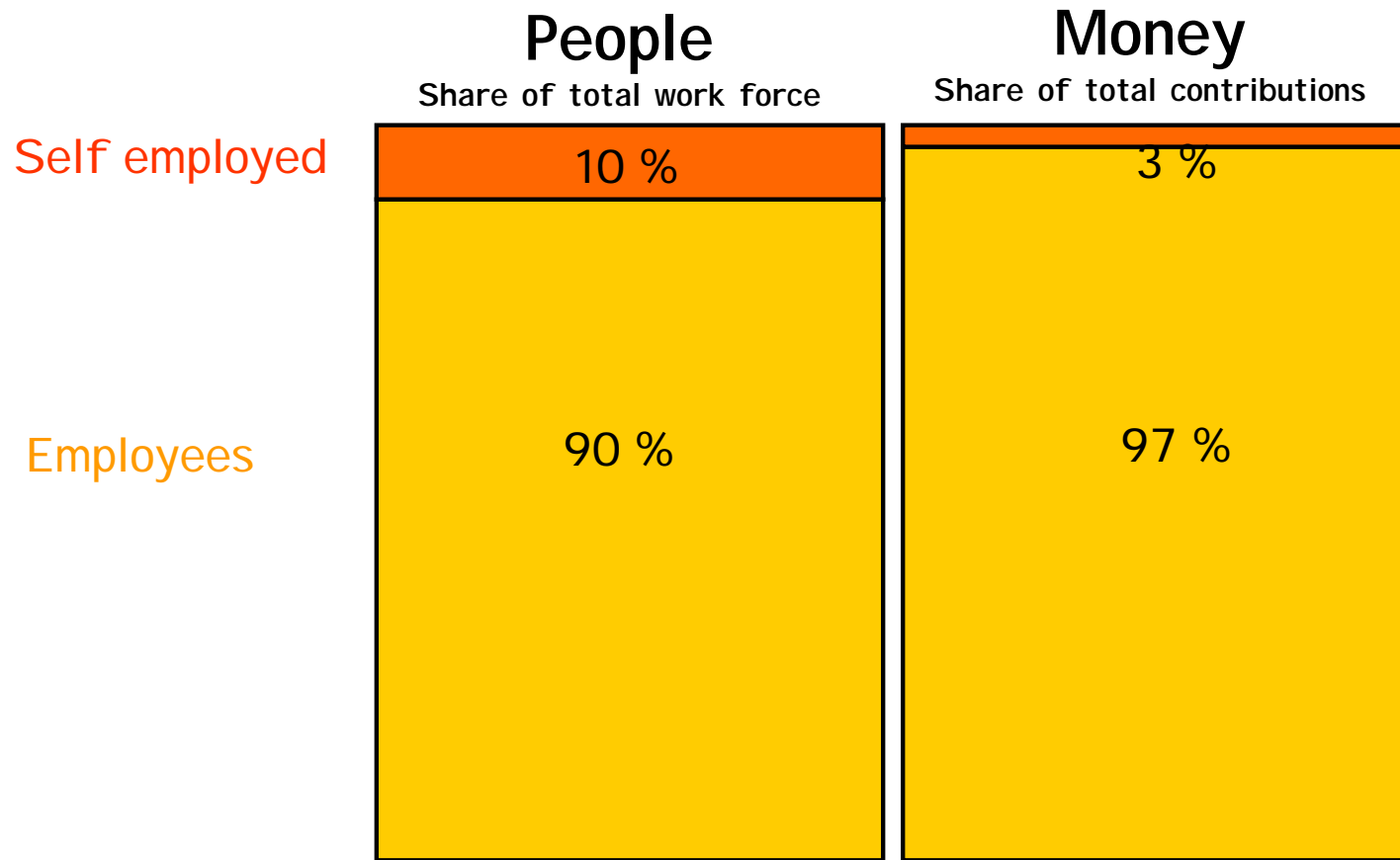
|                               |      |      |      |      |
|-------------------------------|------|------|------|------|
| In the 100 % bracket          | 4%   | 46%  | 1%   | 3%   |
| In the 48 % bracket           | 28%  | 54%  | 18%  | 20%  |
| Guaranteed completely reduced | 67%  | 0%   | 81%  | 77%  |
| Total                         | 100% | 100% | 100% | 100% |



# Issue 2

Does the collection of pension contributions from the self-employed come across with serious problems of assessing and capturing their incomes?

# Tax evasion ?



Yes, most probably

# Issue 3

What were major problems with the separation of assistance of the disabled and the inherited from the pension system?

Understood as;

What were major problems with the separation of the disability pensions and the survivors pensions from the old-age pension system?



# Issue 4

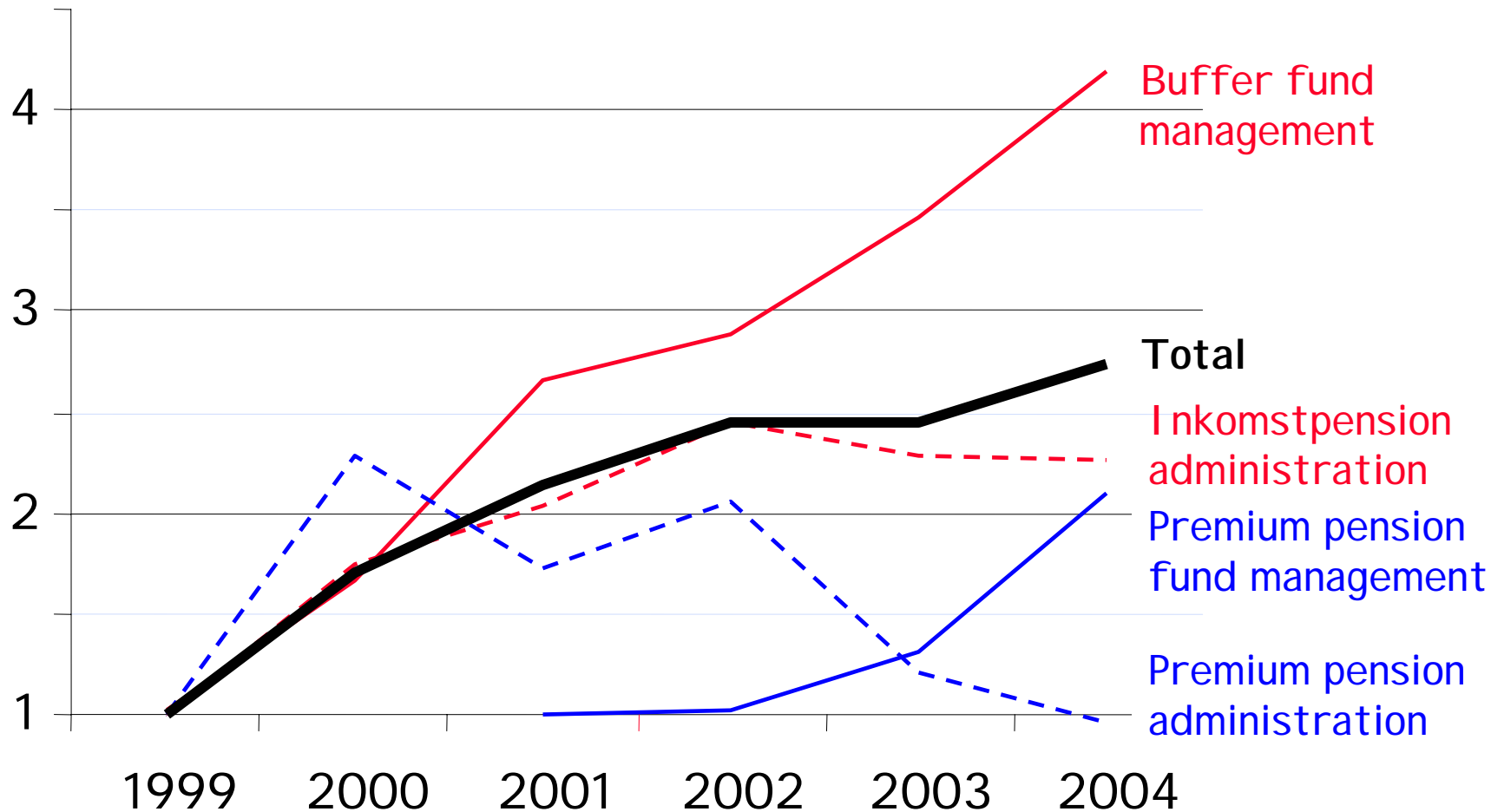
- a) How does the Swedish reform support women regarding their pension benefits, in particular, non-working household women?
- b) Did the introduction of individual accounts come across with any difficulties, including administrative ones?

# The reform has implied high administrative and fund management cost

Millions of SEK

|                                  | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | Percent change per year |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------------|
| Inkomstpension administration    | 352          | 617          | 718          | 861          | 807          | 796          | 18 %                    |
| Buffer fund management           | 359          | 586          | 946          | 1 030        | 1 234        | 1 497        | 33 %                    |
| Premium pension administration   | 292          | 669          | 502          | 599          | 354          | 282          | -1 %                    |
| Premium pension fund management* | 0            | 0            | 231          | 234          | 302          | 486          | 28 %                    |
| Tax office                       | 242          | 237          | 263          | 321          | 340          | 344          | 7 %                     |
| <b>Total</b>                     | <b>1 245</b> | <b>2 109</b> | <b>2 660</b> | <b>3 045</b> | <b>3 037</b> | <b>3 405</b> | <b>22 %</b>             |

# The reform has implied high administrative fund management cost



# What are the major problems?

To name a few, favorite issues,

A

...is an automatically financially stable pension system compatible with the political struggle for power?

B

...will the system cause volatile pension levels, and if so how will policy makers react to such volatility?

C

...are the new systems claimed better work incentives real, and if so will it make people work more and for a longer period?

D

...what will the reaction of the occupational pension schemes and private market be? Will this reaction weaken or strengthen the sought reform effects.

# What are the major problems?

continued...

E

...the combination of compulsory insurance and individual funding, i.e. the premium pension system, will it prove a good idea?

F

...the partial scrapping of the notion of a legal retirement age as an alternative to increased legal retirement age. Politically brilliant, but is the signal to weak? It has also caused some disturbing inconsistencies between systems.

G

...will insured and policymakers understand the system? Will they like it?

# The one undisputable success of the Swedish pension reform

A parliamentary committee proposed in 1992 a very radical reformation of the old, largely popular, public pension system, replacing it with a new automatically financially balanced plan.

In spite of tremendous obstacles the political system did exactly that.

If this was good or bad is not, and will not be, undisputable, but I believe and hope that it was good.

# End

For more information, please read the  
Swedish Pension System Annual Report 2004

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