



# Sweden: Adjusting the 2003 “major” pension reform with a new “Deal” in the “Pension Group”

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*A new “Deal” (December 2017) in the Swedish “Pension Group” concerns all three parts of the statutory pension system: primarily the statutory funded pension scheme and the guarantee pension but also the statutory pension scheme (income pension). The agreement reached concerned principles, which means that a number of specific policy instruments remain to be worked out. Since then, the Social Democratic Party has made additional proposals. All this has put the pension system high on the Swedish political agenda.*

## Description

Sweden carried out a major pension reform in the late 1990s that was implemented in 2003. It converted the old system to a universal basic pension with defined benefit supplements, and included three pillars within a primarily defined contribution framework: a) 16% of earnings go into Notional Defined Contribution (NDC) accounts, on a pay-as-you-go basis; b) 2.5% of earnings go to publicly-administered funded accounts (FDC), but with the option to choose a private fund manager (more than 800 funds have been registered); and c) a guarantee pension is paid to those with no, or an inadequate, contribution record. The broad coalition in parliament behind the reform has made it difficult to make changes. Nevertheless, in December 2017 a new “Deal” was agreed upon in the “Pension Group” set up during the reform process to monitor the reformed pension system, which includes all political parties behind the reform and now also the Green Party (the social partners were not included).

The statutory funded scheme will remain but will be re-regulated. A clearer division will be made between those pension savers who wish to have their contributions managed by a public manager, and those pension savers who wish to have a choice of private fund managers. A new public agency will be set up to administer the private choice element. Meanwhile a 30-point programme will be implemented, drawn

up by the Pension Group for stricter regulation of private managers. The background to this is the unethical and even criminal activities of some fund managers. This has been a huge financial and political scandal, not least over the past year. Pension savers’ assets have been lost due to complicated financial operations and fraud, some involving Malta-based funds. As a result, some fund managers have been banned from the system (Swedish Pension Agency 2018). Prosecutions are in preparation regarding similar operations using funds in Luxembourg and Dubai, including confiscation of the private assets of fund managers (SVD 2018).

The (basic security/non-contributory) guarantee pensions will provide somewhat increased benefits. A special supplement will be paid automatically to pensioners with very low pensions, after means-testing. Coordination of guarantee pensions and housing allowances will be improved, and housing allowances will be linked more closely to actual housing costs. The situation of single householders will be improved by increasing the benefits for singles more than those for couples. No specific proposals are currently on the table, but an investigatory report into the matter mentions a figure of 900 SEK (approx. €90) for single householders and 400 SEK (approx. €40) for people living in couples. Price indexing of guarantee pensions will remain, which suggests that the same problem of inadequate guarantee pensions will re-emerge if real wages continue to increase: the real

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income of pensioners living only on the guarantee pension will not grow as fast as that of the working-age population; it will presumably also grow less fast than that of pensioners benefitting from the statutory pension schemes linked to wages.

Changes to the pension age are complicated in the Swedish system because there is no longer a real "standard pension age" (SPA), but pension ages will nevertheless increase. The pension age for receiving the guarantee pension will rise from 65 to 66 in 2023. Pension ages in the income pension system (NDC and FDC) are in principle flexible, but will be increased (at both ends) stepwise: the lowest pension age will increase from 61 to 64 by 2026. The right to remain in employment will be increased from 67 to 69 by 2023. Note that these changes apply to early- and deferred-withdrawal, respectively, in an old-age pension system with flexible retirement. A new mechanism for increasing the pension age in accordance with longevity will be introduced but has to be investigated: this mechanism should apply to all parts of the system, including the guarantee pension. A new statutory regulation will raise the lowest age at which occupational pensions can be drawn (exactly how will be subject to further investigation, as will be the other changes to the occupational benefits regulations mentioned in the Deal). It should be noted that there is no early retirement scheme in Sweden, only invalidity benefits.

The Deal envisages various actions to improve working life: "The Pension Group agrees that pension levels must primarily be maintained by means of a longer working life but that, at the same time, it is important for pensions, the pension system and society that the charge in the pension system should be at the right level. The level of the pension charge should therefore be reviewed." (p. 10 in the Deal). ("Charge" is to be understood as "contribution rate".)

An exception is introduced for those who have worked at least 44 years, making it possible to retire at 65 years of age.

The Social Democratic Party, currently leading the government, has made two different proposals since the Deal:

- 1 May 2018: Proposal to increase pensions for 60% of retirees by 600 SEK (approx. €60) per month, at a cost of 4 billion SEK (approx. €400 million), to be paid from the state budget.
- 5 July 2018: Social democratic party leadership proposes an increase of 1.3% in employers' pension contributions, to increase replacement rates to around 70% of past earnings, at a cost of 15 billion SEK (approx. €1.5 billion) to employers. This will only affect future pension benefits.

## Outlook & commentary

There are good reasons to believe that the "Deal" will be implemented in its different parts. However, as the different principles are implemented, we are likely to see debates and even protests, especially when it comes to the increased pension age(s) (other changes will mostly increase benefits, e.g. the special supplements to the guarantee pension). The Social democrats' proposal must first be accepted (by convention) by the Pension Group and then (by constitutional law) by parliament. The increased contribution rates are more likely to be approved than the special 600 SEK (approx. €60) allowances for low/medium income pensioners, because the former are more in line with the Deal.

There has been much criticism of the Deal. The Left-leaning parties (outside the Pension Group) have been strongly critical of the increased pension ages, pointing to the health differentials which disadvantage those on low incomes

(manual workers and women). Employers have heavily criticised the increased age for individuals to stay in employment, claiming that this will not improve labour market options for the elderly, who will find it more difficult to get a new job.

The social democratic proposals are important, because they put pensions on the political agenda in a way that has not been the case since the 2003 reform:

- the May 2018 proposal is important because it is outside the Deal and is an attempt to "compensate" those who are already retired for lack of action on the part of the Pension Group (i.e. contribution rates have not been increased);
- the July 2018 proposal is important because it is an attempt to implement a point apparently agreed upon in the Deal, but which has been perceived as controversial even by those behind the agreement.

These proposals, however, have been heavily criticised. The May proposal has been attacked for breaking with the NDC logic of the pension reform and for funding increased income pensions from the tax system and not from social security contributions. The July proposal has been criticised for breaking with the convention of processing all proposals via the Pension Group, and for imposing costs on employers and thus allegedly eroding competitiveness.

### Further reading

The Pension Group's agreement on long-term raised and secure pensions (2017): available in [Swedish](#) and [English](#).

[Regeringen \(2018\)](#)

[Swedish Pension Agency \(2018\)](#)

[SVD \(2018\)](#)

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