2015 Pension Policy Notes

SWEDEN

- **Raise the pension ages; and increase the upper age limit for social insurance in conjunction with the eligibility age for old-age safety nets.**
- **Eliminate the mandatory requirement for high-wage earners to contribute a larger share of their earnings in occupational pension plans.**

The Swedish pension system consists of public pensions, quasi-mandatory occupational pension plans and private individual pension plans. The mandatory public earnings-related pension includes both a notional defined contribution (NDC) scheme, financed on a pay-as-you-go basis with an effective contribution rate of 14.9%, and a funded defined contribution scheme with an effective contribution rate equal to 2.3%. There is also a residence-based guarantee pension benefit that ensures a minimum level of income for individuals with low earnings-related pensions. Furthermore, the elderly with low pensions and high housing cost can qualify for the housing supplement. Elderly with low or no pension income due to few years of residency can claim income support which provides an effective safety net. Quasi-mandatory occupational pension plans negotiated by the social partners in collective agreements cover around 90% of workers. In addition, individuals can save in private individual pension plans. Occupational pensions can often be withdrawn from the age of 55 and public pensions from 61, while the old-age safety nets are available from 65. Employees have the legal right to remain employed until the age of 67 and it is possible to combine work and pension receipt.

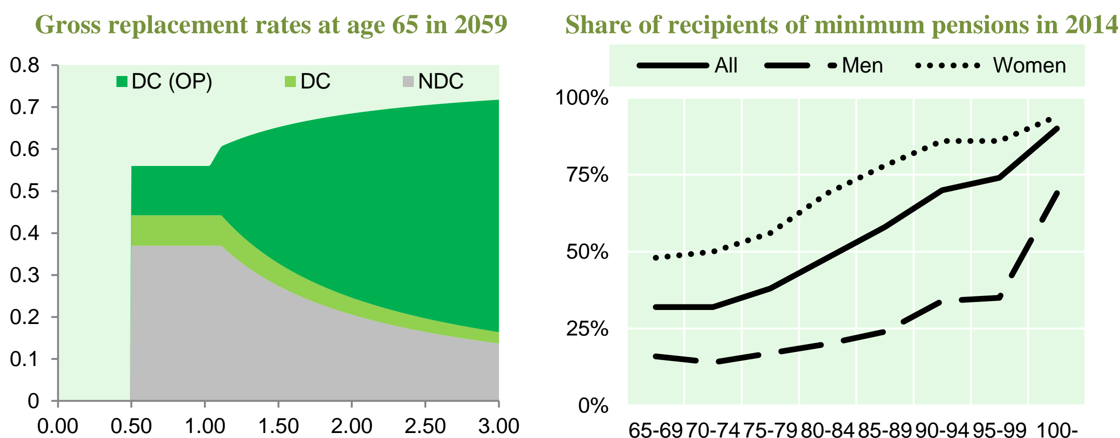
Key indicators: Sweden and OECD average

	Mid-1980s	Mid-1990s	Mid-2000s	Latest available	Latest OECD	Long-term	Long-term OECD
Normal retirement age assuming labour market entry at age 20	65.0	65.0	65.0	65.0	64.6 (63.1)	65.0	65.5 (65.4)
Retirement age	65.0	65.0	65.0	65.0	62.9 (61.8)		64.6 (64.4)
Net replacement rate, average earner						55.8	63.2 (62.7)
Total mandatory contribution rate		19.1	18.9	22.9	19.1		
Total pension spending, % of GDP	9.8	12.4	12.1	12.4	10.3		
Public pension spending, % of GDP	8.7	10.5	10.0	9.8	8.4		
Public debt, % of GDP	65	76	58	53	115		
Employment rate 55-64, %	73.3 (57.2)	64.5 (59.5)	72.2 (66.9)	76.6 (71.7)	66.1 (49.1)		
Labour-market exit age	64.3 (63.0)	62.7 (61.8)	65.1 (62.4)	65.2 (64.2)	64.6 (63.1)		
Old-age poverty rate, %	5.5	3.7	6.2	9.3	12.6		
Life expectancy at 65, years	15.0 (18.8)	16.2 (19.9)	17.8 (20.8)	19.4 (21.7)	18.4 (21.5)	23.9 (26.1)	22.9 (25.9)
Old-age dependency ratio	0.30	0.30	0.29	0.35	0.28	0.49	0.57
Fertility rate	1.9	1.6	1.9	1.9	1.7	1.9	1.8

Note. The figures for women appear in parenthesis where they differ from those for men. Long-term: Around 2060 based on all legislated reforms up to 2015.

Recent reforms include a gradual phase-out of all tax deductions for private personal pension plans by 2016. However, tax deduction will still be possible for self-employed workers and workers not enrolled in occupational pension systems. Moreover, from 2017, changes in the balancing mechanism will smooth the needed adjustments by dampening the volatility of pension benefits while extending the adjustment period. Beyond this, although there have been several government initiatives and Commissions in the last couple of years, the legislative action has been limited.

The occupational pension plans (ITP-1 and SAF-LO) lead to higher replacement rates and earlier retirement for high-income earners. Under the quasi-mandatory occupational pension plans, projected replacement rates increase with income, a feature that is unique in (quasi-) mandatory pension systems across the OECD (see Figure, left panel). This is due to a higher contribution rate for incomes above the contribution ceiling applied in the public pension scheme: on top of a contribution rate of roughly 17.2% in the public system, the contribution rate for the occupational pensions is 4.5% for earnings below the public-scheme ceiling and 30% for earnings above the ceiling.



Sources: OECD Pensions at a Glance 2015, Swedish Pensions Agency

First, a contribution rate of 30% is high in comparison to other OECD countries. Moreover, this (quasi-)mandatory framework provides higher replacement rates for high-income earners and greater possibilities for them to retire earlier. Allowing high skilled people to retire early from their occupational pension assets might have a detrimental effect on the labour market. As men often have higher earnings than women, they are likely to benefit more from this feature. The political acceptance of such a nexus between earnings and replacement rates is being increasingly challenged. Given already high marginal income taxes and elevated replacement rates for high-wage earners, occupational pension contributions for high-income earners should be reduced towards a common level applying irrespective of wage levels.

Individuals risk retiring too early due to myopic behaviour and, as a consequence, many elderly, especially women, might end up receiving targeted and minimum benefits later on in life. Old-age poverty is generally low, but it increases with age. In 2013 the relative income poverty rate for people aged 66-75 was equal to 6.6%, below the OECD average of 11.2%. For individuals older than 75, the poverty rate was higher at 13.5%, only slightly below the OECD average at 14.7%. As in other countries, women older than 65 are more likely to be poor than men (12% versus 7%). Indexation of pension benefits to prices contributes to these patterns as retirees fall back relative to the working population over the duration of retirement, which is longer for women on average. At age 80 a person who retired after having earned the average-wage will receive 52% of the average wage, down from 64% at age 65. Women below the age of 80 are more than three times as likely as men to receive a guarantee pension. In addition, risks from myopic behaviour arise since many retirees choose programmed occupational pension withdrawals. As a result, an increasing share of people claims the guarantee pension benefit, from 32% for the 65-69 age group to above 70% for the oldest (See Figure, right panel). Increasing the relevant retirement ages would limit the impact of counter myopic behaviour that leads some people to retire too early and end up in poverty. All upper age limits in social insurance (sickness/disability, unemployment benefits, etc.) should be increased in line with changes eligibility age to safety-net benefits in order to avoid creating an age gap during which individuals are not covered.

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