BETTER POLICIES FOR BETTER LIVES

SWEDEN

May 2020

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- **Implement the planned increases in retirement ages including automatic links to life expectancy, and extend these measures to occupational schemes.**
- **Raise the level of basic pensions or increase its indexation and, to cover survivor risks, make joint annuitisation at least a default option in all pension schemes.**

The Swedish pension system consists mainly of public schemes and quasi-mandatory occupational plans. Mandatory public earnings-related pensions include both a notional defined contribution (NDC) scheme, with an effective contribution rate of 14.9%, and a funded defined contribution (FDC) scheme, called Premium Pension System, with an effective contribution rate of 2.3% (16% and 2.5% on wages net of contributions, respectively). Both cover earnings up to roughly the average wage. Despite the management of assets being fully private, the mandatory FDC scheme is considered public because contributions are collected by tax authorities, a state-owned agency (Swedish Pensions Agency) provides mandatory annuities and upon death before retirement assets are not inheritable but distributed among all participants. On top of NDC and FDC pensions, quasi mandatory occupational pension plans negotiated by social partners in collective agreements cover around 90% of workers. As their contribution rates increase with income beyond the NDC-FDC ceiling, the pension system provides higher replacement rates for high earners. A residence based basic pension (guarantee pension) ensures a minimum level of pensions at 21% of gross average earnings. It is gradually withdrawn against earnings-related public pensions up to 31% of gross average earnings. Public pensions are eligible from age 62, basic pensions from age 65 while occupational pensions often are from age 55.

Key indicators: Italy and OECD average

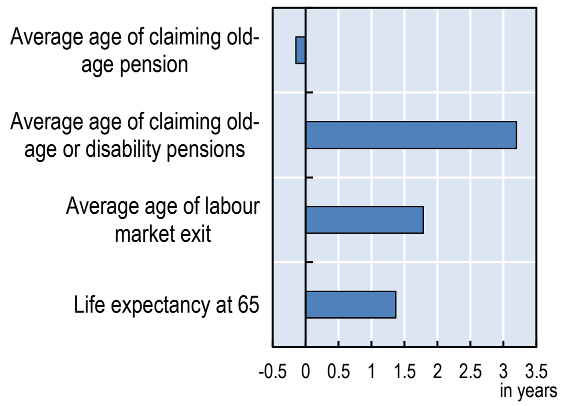
	Mid-1980s	Mid-1990s	Mid-2000s	Latest available	Latest OECD	Long term	Long term OECD
Normal retirement age for a full-time career starting at the age of 22	67.0	65.0	65.0	65.0	64.2 (63.5)	65.0	66.1 (65.7)
Statutory retirement age	67.0	65.0	65.0	65.0	64.5 (63.8)	65.0	66.5 (66.0)
Net replacement rate, average earner						53.4	58.6 (57.6)
Effective contribution rate (average earner)				21.7	18.4		
Total pension spending, % of GDP	9.5	12.1	11.3	12.3	10.0		
Public pension spending, % of GDP	8.4	10.1	9.5	9.4	8.5		
Public debt, % of GDP	66	77	60	50	80		
Employment rate 55-64, %	73.3 (57.2)	64.5 (59.5)	72.2 (66.9)	80.2 (75.9)	68.5 (54.8)		
Labour-market exit age	64.2 (63.1)	62.8 (61.7)	65.1 (62.5)	66.4 (65.4)	65.4 (63.7)		
Old-age poverty rate, %	5.5	3.7	6.2	11.3	13.5		
Life expectancy at 65, years	15.0 (18.8)	16.3 (19.9)	17.8 (20.8)	19.1 (21.7)	18.1 (21.3)	23.4 (25.6)	22.5 (25.2)
Old-age to working-age ratio	0.30	0.30	0.29	0.36	0.31	0.51	0.58
Fertility rate	1.9	1.6	1.9	1.9	1.7	1.8	1.7

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 mid-2019.

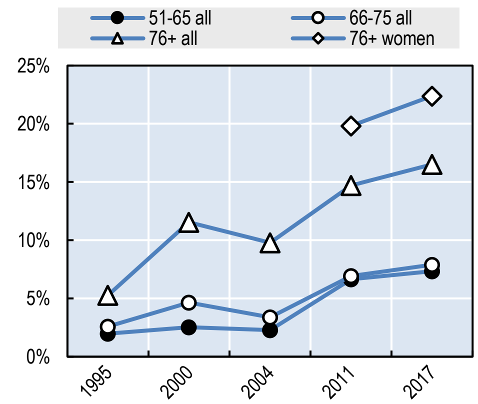
Recent and planned reforms aim at increasing effective retirement ages. Based on current legislation, the future minimum retirement age of 62 years in public schemes is low. The possibility to fully withdraw occupational pensions (i.e. without annuitisation) within five years makes retiring early even more appealing and subject to myopic behaviour. Between 2005 and 2017, life expectancy at 65 increased by 1.4 years and, although the level of NDC and FDC pensions is automatically reduced with longevity gains, the average age of claiming old-age pensions did not increase. There is therefore a risk that, despite built-in financial incentives to work longer, many people choose not to extend their working lives and end up with too low pensions. Meanwhile, the tightening of disability pensions has contributed to raising the average age of labour market exit from 63.8 to 65.6 years. In January 2020, the mandatory retirement age, which remains an obstacle to longer careers, was raised from 67 to 68 years, with a further planned increase to 69 years in January 2023. In October 2019, the minimum retirement age for public pensions was increased from 61 to 62 years and a target retirement age was introduced, but its value has not been determined yet. The Pensions Group, an advisory body of representatives from five political parties that affiliate a vast majority of MPs, agreed on further proposals including: increasing the minimum retirement age to 64 by 2026; passing on two-thirds of changes in life expectancy to the target age; and, linking the minimum and the mandatory retirement ages as well as the basic pension eligibility age to the target age. In 2018, regulation for the funds operating in the mandatory FDC scheme was tightened, resulting in a decline of one-third in the number of funds by 2019.

The price indexation of first-tier pensions raises old-age vulnerability risks. The basic pension is indexed to inflation and, as a result, it lost one-quarter of its value relative to the average wage between 2004 and 2018, from 28% to 21%, increasing relative poverty risks of older people with low earnings-related pensions. The low indexation of basic pensions especially affects very old people, women in particular. In 2017, men and women aged 76 or more had average disposable income at 76% and 63% of population-wide average, respectively, compared to 85% and 77% in the OECD. Likewise, the relative old-age poverty rate of the 76+ is 22% among women and 8% among men in Sweden, compared with the OECD average of 19% and 12%, respectively. To counter the increase in old-age poverty, the government raised the maximum housing supplement for pensioners by 18% in June 2019.

Changes in retirement ages and life expectancy over 2005-2017



Relative poverty rates by age between 1995 and 2017



Source: Pensions at a Glance 2019, OECD Social Benefit Recipients Database, UN World Population Prospects 2019, Pensions Myndigheten 2018.

Increasing retirement ages, including the minimum age required to access occupational pensions, and linking them with life expectancy would counter myopic behaviour that leads some people to retire too early and end up in poverty. Consistent with the recent Swedish proposals, a few countries such as Denmark, Finland and Italy encourage prolonging working lives through linking retirement ages to life expectancy on top of actuarially increasing the benefits when deferring retirement. Raising the level of basic pensions or increasing its indexation is crucial to prevent old-age poverty from rising. Additionally, the absence of mandatory or at least default survivor protection in the form of joint annuities increases poverty risks of widowed persons. Making the survivor option, e.g. in the form of joint annuities, at least a default in all schemes would limit the fall in income following the partner's death, especially among women.

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